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FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1986

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS UNITED STATES SENATE

NINETY-NINTH CONGRESS

FIRST SESSION

ON

S. 1816

MAKING APPROPRIATIONS FOR FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 1986, AND FOR OTHER PURPOSES

Printed for the use of the Committee on Appropriations

PART 1—(Pages 1-1540)

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Department of State
Department of the Treasury
Export-Import Bank of the United States
Inter-American Foundation
Nondepartmental Witnesses
Peace Corps

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FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1986

THURSDAY, MARCH 7, 1985

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 9:35 a.m., in room SD-138, Dirksen Senate Office Building, Hon. Robert W. Kasten, Jr. (chairman) presiding.

Present: Senators Kasten, Hatfield, D'Amato, Specter, Inouye, Johnston, Leahy, and DeConcini.

DEPARTMENT OF STATE

SECRETARY OF STATE

STATEMENT OF HON. GEORGE P. SHULTZ, SECRETARY OF STATE

ACCOMPANIED BY WILLIAM SCHNEIDER, UNDER SECRETARY FOR SECURITY ASSISTANCE, SCIENCE, AND TECHNOLOGY

OPENING REMARKS OF SENATOR KASTEN

Senator KASTEN. The subcommittee will come to order.

This morning, the Foreign Operations Appropriations Subcommittee begins its regular fiscal year 1985 supplemental and fiscal year 1986 appropriations hearings with an overview by the Honorable George Shultz, Secretary of State. Once again, Mr. Secretary, we welcome you to our subcommittee. We look forward to your testimony, as well as to, once again, working closely with you and your associates throughout the year on the very important matters that you are charged with as Secretary of State.

I see that Under Secretary Schneider is with you again today. We also welcome him. I might say, Mr. Secretary, that we greatly value the advice and the help that Under Secretary Schneider has been to all of us on both sides of the aisle. He has been instrumental in our efforts to achieve good legislation in the foreign assistance area. We greatly appreciate his assistance in this overall process.

Mr. Secretary, although Senator Inouye isn't here yet, he has a meeting with the Secretary of Defense and will be joining us, I will invite him to make an opening statement when he does join us. I think it would be best for us to go ahead, but as you and I are both aware, Senator Inouye has been of invaluable assistance to me and all of us as we have developed foreign policy and legislation. The Senators have heard me say on many occasions how much I value his counsel and friendship, and I know you share in my sentiments that he has been a very, very strong contributor to our efforts.

Mr. Secretary, last year I told you that we have been able to produce legislation because we were able to produce a bipartisan approach on this subcommittee, and I am sure that this year we will, once again, be able to do so. The reason we will be able, I believe, to continue the bipartisan approach that we have on this subcommittee and, I might say, in the full Appropriations Committee as well, is because of the Members of the subcommittee, but most particularly because of the work and the leadership of Senator Inouye.

Mr. Secretary, at this time, I would like to ask if Senator D'Amato or Senator Specter has a brief opening statement?

OPENING STATEMENT OF SENATOR D'AMATO

Senator D'AMATO. Mr. Chairman, I thank you for that opportunity, but I don't have a statement. I have an observation. I notice that in the Secretary's statement, there was not any mention with respect to the drug problem and the efforts which the Department is attempting to make, particularly in dealing with countries in South America and some of the others.

I know in the case of Italy, we have done remarkable things and are making very real progress. I know the Secretary and the Justice Department have been involved in that. I have been there in connection with that. I am wondering if the Secretary might touch on what our efforts will be.

Senator KASTEN. Senator Specter, do you have a brief opening statement?

OPENING STATEMENT OF SENATOR SPECTER

Senator SPECTER. Just a word or two. Thank you, Mr. Chairman. I will just say I commend the Secretary on the really Herculean efforts he is making around the globe. There are so many problems which are coming—the Geneva talks; Central America; terrorism is just an enormously substantive matter.

I would be hopeful, Mr. Chairman, I think I heard you say the Secretary had to be back—I think I heard the Secretary had to be back at the State Department by noon. I would limit my comments at this time and just be hopeful that we will have a chance on the round-robin arrangement to have some extended discussion for the record because there are so many important subjects, at least that this Senator would like to have a chance to take up with the Secretary.

Senator KASTEN. Senator Leahy, do you have a brief opening statement?

Senator LEAHY. I will withhold mine until questions, Mr. Chairman. I think the Secretary probably figures he has taken up residence on Capitol Hill enough as it is. I will wait for the questions.

Senator KASTEN. I thank you. This morning we will be using the light system after the Secretary gives his opening remarks, which we hope will be a summary, and, Senator, you are correct, the Secretary has a difficult schedule. All of us are supposed to be in hearings. I was supposed to be in the Budget Committee 10 minutes ago, so I think what we will do is have a very brief summary. We will begin questions with 5 minutes per Senator, and, hopefully, have a chance for several rounds of questions and also allow the Secretary to be back at the State Department well before noon for his appointment.

Mr. Secretary, welcome.

Secretary SHULTZ. Thank you, Mr. Chairman. I appreciate the opportunity to appear here, and I appreciate the opening statements that you and your colleagues have made. I would like to say with respect to the drug problem, we are very much involved and working at it. From a budget standpoint, I think part of our budgetary effort is reflected in the State Department budget which comes before a different committee and partly is in here in terms of support for different countries.

PREPARED STATEMENT

I will take the liberally sprinkled hints and not read my written statement. I will abbreviate it, as it goes with the understanding, if I may, that my full statement will be part of the record for everybody to be able to see.

Senator KASTEN. Without objection, so ordered.

[The statement follows:]

PREPARED STATEMENT OF HON. GEORGE P. SHULTZ

SECRETARY OF STATE

I. OPENING

Mr. Chairman and distinguished members of this committee,

I know that we agree on the need for prudent investments abroad to enhance our national security, promote economic and political freedom, and reflect the humanitarian concerns of the American people. Foreign assistance is such an investment. Yet our foreign assistance request for FY 1986 comes before this Committee at a time when this Administration and the Congress are committed to bringing our budget deficits down. As a former budget director, perhaps I am more sympathetic than most to the immense challenge this poses and the painful choices that will have to be made.

Recognizing the overriding importance of reducing the budget deficit, we have carefully constructed our economic and military assistance programs to a level and mix that represent the minimum requirements to support our foreign policy objectives.

At the same time, we must bear in mind that our foreign assistance programs are vital to the achievement of our foreign policy goals. A world of peace, freedom, international stability, and human progress cannot be built by the United States alone. We need the support and cooperation of the many friends and allies around the world who share our hopes and dreams of a better world, and who rely on us. And if we are to count on their support in facing the difficult and sometimes dangerous challenges of the modern world, we must ourselves be a reliable partner. We must be consistent in our devotion to the principles we cherish and proclaim: to promote prosperity, to defend freedom, to help build democracy and respect for human rights, to help alleviate suffering, and to protect our friends and allies against aggression.

In his State of the Union address, President Reagan noted that "dollar for dollar, our security assistance contributes as much to global security as our own defense budget." Strengthening our friends is one of the most effective ways of protecting our interests and furthering our goals. It gives them the ability and the confidence to defend themselves and to work for peace. If we are willing to pay the relatively modest cost and make the necessary sacrifices today, we can avoid far greater costs and sacrifices in the future. Foreign assistance is a prudent investment in our future, and the world's future.

When I appeared before this distinguished Committee last year, I sought to show how closely linked our foreign assistance programs are to our most fundamental foreign policy goals.

The events over the past two years have convinced me more than ever before that we are on the right track. We have strengthened our relationships with our friends in the developing world against Soviet expansionism. We have seen a number of developing countries move toward free and more open economies. Increasingly, the world recognizes that statist economic systems do not work. Free market economies do. And we have witnessed extraordinary progress in the growth of democratic institutions and in the decline of dictatorships, particularly in our own hemisphere.

It is no coincidence that along with the emergence of freer societies we see more open economies. One supports and reinforces the other. People, if they have a choice, want economic growth. They want prosperity. They need only the personal security and the political and economic environment that allows them to exercise their will and use their talents. Our support for the security and territorial integrity of our friends, therefore, advances the most basic human goals of prosperity and freedom. But it also advances another goal, peace. We have seen over the years that economic progress, individual liberty, and world peace are closely related. As President Reagan said in his Second Inaugural Address: "America must remain freedom's staunchest friend, for freedom is our best ally and it is the world's only hope to conquer poverty and preserve peace. Every blow we inflict against poverty will be a blow against its dark allies of oppression and war. Every victory for human freedom will be a victory for world peace."

Today we are seeing developments in the Third World which, if we continue to nurture them, will lead to a more secure and prosperous world. There will inevitably be occasional setbacks, but if we stay the course, I believe the emerging pattern of stable and democratic governments will slowly but inexorably grow and be strengthened.

Much remains to be done. The most effective contribution we can make to the developing world is to maintain a healthy American economy. Our economic growth rate in 1983 was a prime reason for the sharp increase in U.S. imports from the non-OPEC developing countries to $92.3 billion, some 24% over the previous year. The developing nations will reap even more substantial benefits from the vigorous growth of our economy in 1984.

More than any other factor, however, the domestic policies of these countries will determine the strength and sustainability of their economies and their political institutions. Our foreign assistance can provide those critical incremental resources to help them achieve these objectives.

With this framework in mind, we have engaged in an exhaustive budget review process to assure that the sum of our resources and each individual component are the absolute minimum essential to implement and support our foreign policy.

Overview of 1986 Budget and 1985 Supplemental Request

The FY 1986 foreign assistance request totals $14.8 billion, a $300 million reduction from the FY 1985 Continuing Resolution level. As I will explain later, we have yet to determine the economic assistance level for Israel. When that assistance figure is eventually included, our request will be higher than the previous year. Economic assistance, which includes Development Assistance, PL 480, the Economic Support Fund, and contributions to multilateral development institutions, accounts for $8.2 billion. Military assistance, which includes military grants, loans, and training, totals $6.6 billion.

Our FY 1986 foreign assistance request contains only one modest new initiative--an enhanced economic aid package for the Andean democracies of Ecuador, Peru and Bolivia. With that one exception, our 1986 budget request by and large represents a continuity program, reflecting both the overall fiscal constraints under which we are operating and the fact that many of our earlier initiatives--especially in Central America--are now well underway and beginning to show progress.

As in the past, the largest single component of our foreign assistance request is for Israel and Egypt--twenty eight percent (28%) of the total. This percentage, of course, will be higher when we include economic assistance funds for Israel. Assistance to base rights countries--Spain, Portugal, Greece, Turkey and the Philippines--accounts for an additional sixteen percent (16%), while military access and frontline states such as Korea and Thailand take up another thirteen percent (13%). Central America and the Caribbean represent another eleven percent of the request (11%). All other country programs account for only twelve percent (12%) of the total resources requested. This twelve percent, however, is spread among more than eighty separate countries and regional programs.

Finally, contributions to multilateral development institutions and voluntary contributions to international organizations and programs make up ten percent (10%) of the request, with the remainder of the amounts requested going to the Peace Corps, migration and refugee assistance, international narcotics control activities and a number of smaller programs.

Turning to the specifics of our request, I would like to make the following brief observations:

-- In Development Assistance, we are requesting $2.1 billion to attack serious conditions of poverty in Africa and Asia, Latin America and the Near East, and to help establish the basic conditions for economic progress. We place heavy emphasis on policy reform, greater use of the private sector, and on technology transfer to foster development breakthroughs.

These economic programs are a critical aspect of our overall foreign policy objectives.

-- Closely related to the Development Assistance request is a request for $1.3 billion in PL 480 for food assistance and balance of payments support to friendly governments. Food aid remains the centerpiece of the American people's humanitarian response to the tragic famine conditions in Africa.

-- The $2.8 billion requested for the Economic Support Fund is $1 billion below the amount appropriated in the FY 1985 Continuing Resolution. This is due in part to the fact that we have deferred making any ESF request for Israel at this time. I will elaborate on the question of economic assistance to Israel later in my remarks.

-- Our request for military assistance--that is, direct Foreign Military Sales credits and grant MAP--is $860 million more than was appropriated in 1985. Most of this increase, $525 million, is accounted for by higher levels for Israel ($1.8 billion as opposed to $1.4 billion in 1985) and Egypt ($1.3 billion as opposed to $1.2 billion). In addition, our military assistance request for Turkey has been increased from the 1985 level of $700 million to $785 million. For the Philippines, we are requesting a $75 million increase over the FY 1985 level.

In conjunction with our FY 1986 request, we are submitting two requests for supplemental appropriations in FY 1985. These include $235 million in new budget authority to complete our $1 billion package of relief for the victims of the famine that continues to devastate much of Sub-Saharan Africa. We are also requesting $237 million to meet our arrearage payments to several multilateral development institutions.

III. The Regions

Latin America and the Caribbean

Mr. Chairman, nowhere has the linkage between foreign assistance and U.S. national interests -- and between democracy and economic opportunity -- been better illustrated than in Latin America and the Caribbean. The past year has provided clear evidence that democratic development, and the rejection of the Communist left and the far right, are the keys to enduring peace and improving standard of living for all.

Our policy of lending political, economic, and military assistance to pro-democratic forces is working. Let us look at the record.

In 1979, four of the five Central American countries were undemocratic, but six years have produced dramatic change. Nicaragua remains under a dictatorship -- having traded a tyrant of the right for the tyranny of the left -- and Costa Rica remains thoroughly democratic -- though increasingly and justifiably concerned about its heavily armed Communist neighbor. But, an unprecedented transformation has taken place in the rest of Central America.

El Salvador has undergone the most dramatic change. As recently as a year ago, the country appeared caught in an endless war between guerrillas of the left and death squads of the right. But as the National Bipartisan Commission on Central America found, electoral democracy and political dialogue -- not externally imposed "power sharing" -- proved to be the practical basis for attacking the seamless web of El Salvador's political, economic, social, and security problems. In turn, increased economic and security assistance were necessary to give democracy, reform, and economic revitalization a fighting chance.

Last year demonstrated that President Duarte's course was most likely to lead to greater respect for human rights and a better life. The Salvadorans themselves made the point in two rounds of national elections in 1984.
And they did it again in a different dimension when a civilian jury found five former National Guardsmen guilty of the murders of the four American churchwomen. Support for this democratic renewal was backed unanimously by the National Bipartisan Commission, by President Reagan, by a bipartisan majority in the Congress, and in Europe by Social Democrats as well as Christian Democrats.

It would be naive to claim that all is now reformed, centrist, and peaceful in El Salvador. But the progress is significant and undeniable. U.S. firmness on principle and steadfastness on behalf of our Salvadoran friends has had a lot to do with it.

The recent history of Guatemala exemplifies the strength of the currents of change in the region. The country often ranked as "the most polarized" or with the "least chance of democratic development" has confounded the conventional wisdom. The Constituent Assembly elections seven months ago were not only widely accepted as honest and open, but -- to the surprise of many -- revealed that centrist forces constitute the political majority. Elections for President, Vice President, Congress and local offices have been set for October. It is encouraging that the Guatemalans are moving in this direction almost exclusively on their own.

There is one issue, however, on which considerable controversy still reigns: Nicaragua. While we are promoting democratic reform throughout Central America, the Sandinista leaders in Nicaragua are moving quickly, with Soviet-bloc and Cuban help, to consolidate their totalitarian power. Should they achieve this primary goal, we could confront a second Cuba in this hemisphere, this time on the Central American mainland -- with all the strategic dangers that this implies. If history is any guide, the Sandinistas would then intensify their efforts to undermine neighboring governments in the name of their revolutionary principles -- which Fidel Castro himself flatly reaffirmed on American television a few weeks ago. Needless to say, the first casualty of the consolidation of Sandidnista power would be the freedom and hopes for democracy of the Nicaraguan people. The second casualty would be the security of Nicaragua's neighbors, and the security of the entire region.

I do not believe anyone in the United States wants to see this dangerous scenario unfold. Yet there are those who would look the other way, imagining that the problem will disappear by itself. There are those who would grant the Sandinistas a peculiar kind of immunity in our legislation -- in effect, enacting the Brezhnev Doctrine into American law.

The democratic forces in Nicaragua are on the front line in the struggle for progress, security, and freedom in Central America. Our active help for them is the best insurance that their efforts will be directed consistently and effectively toward these objectives.

Communist dictatorships feel free to aid and abet insuregencies in the spurious guise of supporting "liberation". Democracies, the true target of this threat, must not be inhibited from defending their interests and the cause of democracy itself.

Peace and economic development in Central America require both the reliability of multi-year funding and the confidence that this long-term commitment will continue to be tied to equity, reform, and freedom. Bipartisan support is essential if the Central America Initiative is to address the Bipartisan Commission's call for a commitment through 1989 to provide --in a consistent predictable way -- a balanced and mutually reinforcing mix of economic, political, diplomatic, and security activities.

This initiative is designed to use economic aid, coupled with sufficient policy reform, to eliminate root causes of poverty and political unrest. Much work is already underway. Discussions are taking place with recipient countries concerning macro-economic adjustment. Progress has been made toward economic stabilization. Regional technical training programs will begin in April. We have begun to work with governments and non-governmental organizations seeking to improve the administration of justice. A trade credit insurance program has been set up through AID and the Export-Import Bank. The revival and strengthening of the Central American Bank for Economic Integration is being studied. And we are working to assist in the revival of the Central American Common Market.

The democratic trend in the Andean region has been equally impressive. All five countries have democratically elected governments. But like their Latin neighbors to the north, many of their economies are being seriously challenged.

Ecuador, Peru, and Bolivia, have been particularly hard hit by the recent global recession. Their difficulties have been exacerbated by catastrophic weather conditions, sagging prices for their main exports, and, in Peru, a vicious Maoist guerrilla movement.

These countries deserve our help and it is in our interest to help them. We are proposing a special Andean program principally supported by $70 million in Economic Support Funds to assist these countries in their recovery efforts.

A democracy incapable of addressing major economic problems will be no more permanent than the dictators of the right or left that it has replaced.

We are encouraged that our neighbors in Latin America for the most part are taking the necessary and often painful steps to ensure economic revitalization. They have lowered government expenditures, bringing them in line with government income. They have restricted imports of non-essential goods to save foreign exchange. They have adjusted their exchange rates to reflect economic reality and breathe new life into their export sectors. They have worked with the international financial community to restructure their debts and ensure continued orderly debt servicing. They have reallocated scarce resources even as those resources fell.

The efforts are beginning to show results. The trade balance for Latin America with the rest of the world has improved significantly, recovering from a negative $2 billion in 1981 to an estimated positive $37.6 billion in 1984. Vigorous U.S. economic growth in 1984 created new export opportunities. There also has been growth in real per capita income of about 0.2 percent in 1984 -- not much, but better than the decline of 5.8 percent in 1983 and 3.3 percent in 1982.

The Caribbean Basin Initiative is showing some positive signs. U.S. non-petroleum imports from the region for the first 11 months of 1984 were up 19 percent over 1983. The open U.S. market continues to offer substantial opportunities for the region's exports.

In Latin America and the Caribbean, I believe that the Administration and the Congress have reason to conclude that the policies we have been following the last four years are succeeding. The best option for the next four years is to continue these efforts based on firm, bipartisan support.

The lessons from the recent past and the guidelines for the near future can be condensed into an assertion: The skeptics were wrong about El Salvador, they were wrong about Grenada, and they are wrong about Nicaragua -- and all for the same reasons. Mr. Chairman, what the Administration and the Congress have learned together in the past provides a mandate for the future. The Administration cannot fulfill that mandate without the active support of the Congress. If you and we do not stand firmly on principle and with our friends, we will both lose. A lack of policy consistency would be a significant obstacle to achieving our national objectives in this region over the next months and years.

Africa

I turn now from the promising developments in Latin America to a region where problems continue to be grave. Africa's desperate economic state is more in the public eye than it has ever been. I would like to devote the major portion of my discussion of Africa today to the economic crisis. In doing so, I do not mean to minimize the relationship between economic development and the national security of African states. Security assistance remains essential for many African countries. States threatened by Libyan adventurism or Soviet-armed hostile neighbors cannot devote the energy or resources necessary to economic development. And economically fragile societies are most vulnerable to subversion and attack.

Our total FY 1986 request for Africa is just over $1.2 billion. Of that amount 17% is for military-related assistance, roughly the same amount as in FY 85. The overwhelming majority - over one billion dollars - is for economic assistance. While the military component is small,it is nevertheless extremely important if we are to continue the programs of logistics support and training that we have started and if we are to provide the bare minimum in the way of defense equipment for our friends facing threats. The proximity of the Horn of Africa to the Middle East and vital oil shipping routes in the Red Sea and the Indian Ocean adds a critical strategic dimension to our interests in creating a politically stable and economically viable environment in the region. Consequently, we are seeking the resources necessary to assist Sudan, Kenya, Somalia, and Djibouti cope with their flat economies and to help Sudan and Somalia counter the very real threats to their security.

In southern Africa we continue to work diligently toward a just and lasting settlement for Namibia based on UN Security Council Resolution 435, for continued change in the repugnant system of apartheid in South Africa, and for the economic and political stability of the region in general.
The funds that we are requesting for programs in southern African countries will enable us to strike directly at the causes of the economic difficulties of the region. In southern Africa, as in East Africa, we intend to thwart the destabilizing influence of the Soviet Union and East Bloc by providing economic assistance and by offering an alternative to Soviet and East Bloc military assistance and training. Mozambique has demonstrated a real intent to move away from heavy dependence upon the Soviet Union and toward a position of true non-alignment. The small MAP and IMET programs for Mozambique are of particular importance in encouraging this process.

In West Africa we have recently seen the spread of both the effects of the drought and long-term economic stagnation and Libyan adventurism. Our assistance is targeted against both the near-term crisis and the long-range effects of the economic crisis.

I would like to focus specifically on the two most urgent crises facing Africa today: famine and economic stagnation. During recent months, untold thousands of Africans have perished. We estimate that some 14 million Africans remain at risk. If they are to survive, they need urgent assistance in terms of food, medical care, and shelter.

There is also the broader problem of malnutrition. An estimated 20 percent of Africa's population eats less than the minimum needed to sustain good health. Africa is the only region in the world where per capita food production has declined over the past two decades -- a combination of a drop in productivity and rapidly growing population. Africa's food dependency on outside sources has been growing at an alarming pace, with African commercial imports of grain increasing at a rate of nine percent per year during the past twenty years.

In addition to the current severe food crisis, Africa's disappointing economic performance has made it difficult for most African countries to service their debt, propelling many countries from one financial crisis to another. The economic crisis has required that African nations regularly seek debt rescheduling. Ten of the fourteen Paris Club reschedulings in 1984 were for African countries.

The United States has mounted an unprecedented campaign to provide both economic and emergency food assistance to Africa In this effort, we have not allowed political or ideological differences with any government to weaken our determination to direct assistance to those in need. Since October of last year, we have committed more than $400 million to send over one million tons of emergency food and other types of humanitarian assistance to Africa.

If we add our regular AID food programs, then our total food assistance for Africa is even larger -- almost 600 million dollars thus far this fiscal year. Our current request for $235 million in supplemental emergency funding for Africa will bring total food and emergency assistance this year to over $1 billion. I think we can be justifiably proud of what we have been able to accomplish in such a short period of time. I assure you that our response will continue to be a generous one.

Equally impressive has been the direct response of the

American people and the private sector. Through generous contributions to private voluntary agencies, many thousands of additional lives have been, and continue to be, saved. Volunteers for these agencies are directly involved in distributing food, medicines, clothing, and shelter and caring for drought victims in the most remote parts of Africa, enduring extreme hardships and even risking their own lives. Such humanitarian assistance is in the best tradition of America and the values for which America stands.

Public attention has focused on the immediate drought crisis, but it is apparent that Africa's economic difficulties have a profound origin that goes back many years.

Drought has aggravated the problem, but is not the principal cause of Africa's economic crisis. Many of the African governments recognize that past policy failures have contributed to the current economic crisis. While we seek to address the immediate crisis, therefore, we must also seek more sustainable solutions to Africa's economic problems. The United States has been in the forefront of those seeking to help African countries move from a statist economic orientation to one which allows market forces to operate freely and which provides appropriate price incentives, particularly to the small farmers. Structural issues which are being addressed include inefficient parastatals, overvalued exchange rates, negative interest rates on bank deposits, uneconomic subsidies to consumers and artificially low prices to producers. In addition to the emergency assistance to meet the drought and famine needs, U.S. economic assistance levels for Africa have increased from $787 million in FY 1981 to over $1 billion in FY 1985; For FY 1986 we are again asking for a total of $1 billion in economic aid. The Administration has established two new programs to assist African governments to undertake desirable reforms.

Last year the Administration requested $75 million in Development Assistance funding as the first step in a five year $500 million program designed to provide additional financial support for selected African countries who are undertaking significant economic reforms. The Congress agreed to appropriate $75 million but changed to the ESF "for programs or activities for Sub-Saharan Africa not previously justified'. The accompanying report language made it clear that this funding was provided in lieu of the Administration's request.

As we have notified the Congress, we are currently discussing use of these funds for possible programs with four African countries: Zambia, Malawi, Mali and Rwanda, and may choose a fifth country later. Congressional notifications outlining the proposed program in each country will be submitted as soon as possible. In each of these four countries our programs will facilitate and accelerate major policy reforms designed to stimulate economic growth through agricultural production and reduced governmental impediments to efficient utilization of limited economic resources.

In our FY 86 budget submission we are seeking a second appropriation of $75 million in ESF funds under the Africa Regional account. Economic reform has become a major part of our dialogue with all African countries, and facilitated with many aspects of our regular program. However, implementing some of these reforms requires timely support of flexible funds, not tied to other long-term projects. This is what this $75 million is for. The experience of the past few months indicates that there is major international support for this program in Africa and in other donor countries.

The flexibility provided over this program has permitted us to have an impact on policies of donors and recipients alike which far exceeds the modest amount of funds involved in this request. I can think of no other single aspect of our assistance activities which more directly bears on the factors that have contributed to what is commonly called "the African Economic Crisis". An increasing number of African countries are beginning to alter in a fundamental way their national economic policies. Above all, the relevance of free market economies as opposed to statist solutions has become clear to African leaders as never before.

I might just add that our perception of the roots of Africa's current economic crisis is widely shared by the international community. We are particularly pleased with the World Bank's latest report on sub-Saharan Africa and its stress on the need for economic reform to reverse Africa's economic decline. The World Bank recently launched its own Special Facility which will provide financial support to reform-minded countries -- a facility which complements and reinforces our efforts.

The "Food for Progress" initiative recently announced by the President is also targeted at achieving policy reform, but exclusively in the agricultural sector. This initiative would use food aid in strategically important African countries to promote reform in the key agricultural sector, stressing market approaches in agricultural pricing, marketing, and the supply and distribution of fertilizer, seeds and other agricultural inputs. One of the goals of the initiative is to supply

American food to reform-minded countries on a multi-year basis. The sale of the commodities on the local economies would provide resources for the governments to use in supplying needed incentives and inputs to the farmers while easing the effects on urban consumers of moving toward a market economy. The details of this proposal, including funding levels and sources, will be transmitted to the Congress shortly.

Near East and South Asia

One of the most important foreign policy goals of this Administration is to help achieve a lasting peace between Israel and its Arab neighbors. There are no quick and easy solutions for peace in the Middle East, but our assistance plays a crucial role in furthering the peace process.

In recent weeks, there appears to have been movement in the region of the type which, if sustained, could facilitate Jordanian entry into direct negotiations with Israel based on UN Security Council Resolution 242. Israel's Prime Minister Peres has welcomed Egyptian President Mubarak's call for direct negotiations between Israel and a Jordanian-Palestinian delegation. Saudi Arabia's King Fahd and President Reagan, in their recent discussions, agreed that a stable peace must provide security for all states in the area and for the exercise of the legitimate rights of the Palestinian people. We will support any practical effort to move the Arab-Israeli dispute to the negotiating table, the sooner the better.

Israel and Egypt remain our principal partners in the quest for peace, and these two nations would be the largest recipients of our proposed foreign assistance for Fiscal Year 1986. Our economic and military assistance programs are needed

to strengthen Jordan's security and economy, both of which are vital to enable Jordan to confront the risks involved in playing a significant role in the peace process.
Our relationships with Saudi Arabia and the Arab Gulf States are important elements in our efforts to advance the peace process and, as I will mention later, to protect our interest in the Persian Gulf.

The United States has a commitment to Israel's security extending over three decades. Our security assistance proposal aims to easing the onerous burden Israel shoulders in meeting its defense needs. The Fiscal Year 1986 Foreign Military Sales (FMS) program will enable Israel to maintain a qualitative military edge over potential adversaries in the region. Further progress towards peace depends in part on Israel having sufficient confidence in its ability to withstand external threats but also confidence in U.S. support and assistance. For these reasons, we are recommending a significant increase in Foreign Military Sales on a grant basis for Israel.

The U.S. and Israeli governments agreed last October to establish a Joint Economic Development Group to review economic developments in Israel, the role of U.S. assistance in support of the Israeli adjustment program, and Israeli longer-term development objectives. At a meeting in December, Israeli government officials presented the annual White Paper outlining Israeli economic objectives and assistance requirements for the remainder of this fiscal year and for FY 1986.

Our security assistance is a reflection of the U.S. commitment to Israel's security and economic well-being. In addition, we have indicated our willingness to provide extraordinary assistance in support of a comprehensive Israeli economic program that deals effectively with the fundamental imbalances in the Israeli economy. Without such a reform program, however, additional U.S. assistance would not resolve Israel's economic problems but merely help perpetuate them. Moreover, without economic adjustment Israel will become even more dependent on U.S. assistance in the future. The Israeli government has made some considerable progress to date in developing an adjustment program. But further progress is necessary if their program is to put Israel back on the path of economic health and additional U.S. assistance is to serve a useful purpose. Accordingly, the Administration intends to hold open for the time being the amount and form of ESF which we will be requesting from the Congress pending further discussions with Israel and further evolution of its stabilization program.

Our discussions will continue to focus not only on short term stabilization measures, but also on Israel's longer range development objectives so that Israeli citizens can have confidence in a brighter, more prosperous future.

We agreed during Prime Minister Peres' visit last October to work together to promote foreign investment in Israel, particularly in the high technology area where Israel has a comparative advantage. Both governments are examining existing programs and frameworks which might help to improve Israel's investment climate and attract venture capital from abroad. It is clear that in Israel's case -- as in other countries -- mobilizing both domestic and foreign venture capital depends on an atmosphere that encourages private enterprise, appropriate tax structures and market pricing policies. Private sector initiatives hold the greatest promise for helping Israel achieve its development goals, and we are encouraged by the interest that has been generated in both countries. Our real objective is to support Israel's own efforts to seize the opportunity to establish the fundamental conditions for economic growth in an age of new technology.

The Camp David accords and the Egyptian-Israeli peace treaty remain the cornerstone of our Middle East peace policy. Egypt has demonstrated its firm commitment to those accomplishments by repeatedly refusing to disavow them as a price for resuming its historic leadership role in the Arab world. Our assistance helps ensure that Egypt will remain strong enough to continue to resist the pressures of radical forces which seek to undo what has been achieved.

Egypt remains an important force for moderation and stability not only in the Middle East but also in Africa, where it plays an important role in helping African states deter Libyan adventurism. Egypt's ability to continue this deterrent role depends heavily on our assistance. The FY 1986 Foreign Military Sales Program has been increased to enable Egypt to continue replacing obsolete Soviet equipment and remain a credible deterrent force in the region.

Another major U.S. interest in the Middle East is to maintain free world access to the vital oil supplies of the Persian Gulf now and in the future. The Persian Gulf countries produce over 25% of the free world's oil supply. Through our assistance, we help to improve the security of our friends in this area. Oman is cooperating closely with the U.S. toward our common goal of maintaining security and stability in that vital area and freedom of navigation through the Strait of Hormuz; Oman's agreement to permit access to its facilities represents a key asset for the U.S. Central Command. Although not recipients of U.S. financial assistance, the other Gulf states and Saudi Arabia, as members with Oman in the Gulf

Cooperation Council, have shown the will and the ability to defend themselves against encroachment of the Iran-Iraq war. The Administration is embarking on a comprehensive review of our security interests and strategy in the area, focusing on how our various programs in the security field complement our efforts in the peace process and contribute to the general stability of the region.

In North Africa we have longstanding and close relationships with Morocco and Tunisia as firm friends and strategically located geo-political partners. Morocco, with whom we have transit and exercise agreements, and Tunisia are both in difficult economic circumstances. Our assistance program in Morocco, in concert with other donors, is designed to help the Moroccan Government as it implements necessary economic reforms. We have expressed to the Government of Morocco our disappointment over the unwelcome development of the Libya-Morocco treaty of August 1984. Qadhafi's aggression against neighboring states and his undiminished support of terrorism and subversion worldwide are continuing causes of concern. We have registered these concerns with the Moroccans and told them that we discount the possibility that association with King Hassan could influence Qadhafi constructively. Despite differing views on how to deal with Qadhafi, however, the economic and political rationale for this assistance to Morocco remains; indeed it is stronger.

South Asia

A major foreign policy objective in South Asia is to obtain a negotiated settlement to get the Soviet Union out of Afghanistan so that the refugees can return and Afghans can exercise their own sovereignty and independence. In our efforts to achieve this goal, it is vital that we help ensure the security of Pakistan in the face of Soviet intimidation. Our six-year assistance program for Pakistan serves this goal. It is designed to support Pakistan's economy and its development and to help strengthen its defenses through provision of military equipment and training.

The U.S. has several important goals in South Asia. We seek to prevent conflict among the major states of the region; to help the region develop economically, and to foster the success of democratic institutions. India, the largest democracy in the world, plays a pivotal role in the peace and stability of the region. Our development assistance program for India will concentrate on more sophisticated research and higher technical training, building on India's strong scientific and technological base. Our assistance programs in Bangladesh, Sri Lanka and Nepal demonstrate U.S. support for the moderate non-aligned policies and economic development of these countries.

Europe

Security assistance proposals for the European region are designed to redress the military imbalance in Europe and counter the increased Soviet military threat in Central Europe and in Southwest Asia. The assistance supports key NATO allies and has the dual result of providing the U.S. with continued access to important military bases and helping these countries modernize their own military capabilities. By so doing, our security assistance sustains confidence in our best efforts commitments which are the foundation of base agreements.

U.S. foreign policy objectives in Spain are to support

Spanish democracy, to encourage Spanish movement towards a more open economy, and to contribute to Western defense by assuring continued U.S. access to vital air and naval facilities in Spain. The security assistance program plays a key role in achieving these objectives.

The Spanish military has assumed a role appropriate for armed forces in a democracy. Our assistance is necessary to help Spain meet its goal of modernization to NATO standards and to provide tangible evidence of the benefits Spain receives as a partner in the Western alliance, as demonstrated by its bilateral relationship with the U.S. as well as its participation in NATO.

Our security assistance program thus plays an important role in helping Spain to consolidate and strengthen its new democratic institutions.

Prime Minister Gonzalez' government has taken politically difficult steps to open Spain's traditionally protectionist economy to market forces. This decision was particularly courageous since Spain's economic austerity program has been accompanied by high unemployment. But as a result, the Spanish economy has shown impressive improvement in 1984. Its economic program would have placed a much more onerous burden on the Spanish people without our support. The security assistance program helps in modernizing the economy through scientific and technical exchanges and permits Spain to continue its economic recovery without jeopardizing its military modernization.

Our objectives in Portugal are similar to those in Spain. Portugal is striving to consolidate its 10-year-old democratic institutions while it assumes an expanded role in western political and military structures. It is also pursuing a demanding economic austerity program in an attempt to reform its troubled economy, which is the second poorest in western Europe. The U.S. security assistance program assists Portuguese economic development efforts and permits Portugal to continue its program of military modernization aimed at assuming expanded NATO defense responsibilities.

U.S. security assistance to Portugal therefore provides both real and symbolic support for Portugal's attempt to strengthen its democracy and free-market economy. It provides a cornerstone for Portugal's attempts to play a more effective role in NATO. It also serves to meet the assistance goals to which the U.S. is committed under the 1983 agreement.

Our security assistance to Greece and Turkey contributes to important strategic policy objectives on the southern flank of NATO. Turkey's position between the Soviet Union and the Middle East and proximity to southwest Asia make it a natural barrier to Soviet expansion into the Middle East and the Persian Gulf. The Soviet invasion of Afghanistan, the Iran-Iraq War and the disintegration of Lebanon highlight the importance of a politically stable and militarily credible Turkish ally in this disturbed region. We also benefit from our military relationship with Turkey by our use of extremely valuable military and intelligence facilities. The United States accordingly has a compelling interest in enhancing Turkey's ability to meet its NATO commitments and deter potential aggression in Southwest Asia through provision of security assistance.

Our interests are not confined to NATO security objectives. We have sought the cooperation of the Turkish Government in promoting a settlement on Cyprus. The Turkish Government accepted and supported the U.N. Secretary General's initiative. We are now working with all the parties to ensure that efforts in the wake of the recent summit in New York to reach a settlement between the Government of Cyprus and the Turkish Cypriot community can move forward. Accordingly, we believe that any attempt at one-sided efforts to impose conditions regarding Cyprus on security assistance to Turkey would not only be unwarranted but would set back the prospects of a settlement on Cyprus.

On the economic side, Turkey has taken far-reaching and courageous steps to stabilize and liberalize its economy. U.S. concessional aid to Turkey is directly and constructively related to Turkey's efforts to create a freer and more sound economy.

We are also seeking a substantial level of security assistance for Greece. We have our differences with the Greek government. We want a better relationship with Greece, but the Greek government has to do its part as well. We recognize Greece's strategic importance in the eastern Mediterranean. We derive important benefits from our military facilities.
Our security assistance program is an important element in our relationship with Greece. It is exceeded only by our request for Israel, Egypt, Turkey and Pakistan.

East Asia and Pacific

Foreign assistance is an investment in the future that can benefit both recipient and donor. This is particularly evident in the East Asia and Pacific region where the returns paid on our foreign assistance investment have been enormous. For some 20 years East Asian countries have achieved higher economic growth rates than any other region of the world. They have achieved these remarkable results principally by relying on the dynamism of free market systems. As a result of this rapid economic growth, the region now accounts for more of our foreign trade than any other region of the world. Since former aid recipients in the region have reached the stage of development where they no longer need bilateral aid, and in some cases have become aid donors themselves, East Asia and Pacific countries now account for only a small portion of our worldwide assistance programs despite the vital importance of the region to the United States.

In spite of this generally bright picture, the region still has pressing economic and security problems that we must confront. The Administration's FY 1986 foreign assistance request for East Asia and the Pacific that addresses these problems totals approximately $818 million. The requested economic assistance of $335 million will be concentrated in the three largest members of the Association of South East Asian Nations, the Philippines, Indonesia, and Thailand. The bulk of the $483 million requested for military assistance will go to deter direct military threats to Korea and Thailand and to enhance our close military relationship with the Philippines, a treaty ally. We also propose modest assistance programs in other ASEAN countries, in Burma, a country that has become increasingly important to our anti-narcotics efforts, and in the islands of the South Pacific. I would like to highlight some of our specific concerns.

The Philippines has passed through difficult times that have adversely affected the economy. The government has begun to take corrective measures and has concluded an economic stabilization agreement with the International Monetary Fund. These actions are encouraging, but more has to be done to turn the economy around. The Philippine situation is further clouded by a growing armed insurgency by the New People's Army, the military arm of the Communist Party of the Philippines, which has been able to exploit the country's political, economic, and social difficulties.

The revitalization of democratic institutions, the establishment of long-term growth through structural economic reform, the maintenance of our vital security relationship, and the successful resistance to a communist takeover of the Philippines are intertwined. Our integrated economic and military assistance program is designed to support all of these objectives.

Like the Philippines, Thailand is a treaty ally of the United States. It is also a front-line state that faces serious security challenges caused by Soviet supported Vietnamese aggression in neighboring Cambodia. Our security assistance to Thailand supports the government's efforts to improve social and economic conditions in the war-affected Thai-Cambodian border areas that have experienced a large influx of refugees because of continued brutal attacks by Vietnam. The on-going Vietnamese military offensive along the Thai-Cambodian border and frequent Vietnamese forays into Thailand underscore the importance of modernizing Thailand's defense forces to provide a deterrent to further Vietnamese aggression.

The specific efforts of the Philippines and Thailand are reinforced by their membership in ASEAN, which represents the best hope for peace and stability in Southeast Asia. Consistent with our strong support for ASEAN and in recognition of the importance of our relationship with Indonesia, we have also proposed economic and military assistance for that nation. Indonesia has continued to make good progress in its development program and maintaining sound economic policies in the face of an international recession. Our military sales to Indonesia have enhanced our common strategic interests in Southeast Asia. We also plan to continue the ASEAN regional technical assistance program. In another ASEAN member, Malaysia, where U.S. private investment continues to be a major catalyst of economic growth and development, the government has expressed interest in continued defense cooperation with the United States within the context of that nation's non-aligned status. Malaysia has played a constructive role in international affairs and has forcefully advanced ASEAN's strategy to bring about a withdrawal of Vietnamese forces from Cambodia. We propose to continue our modest military assistance program in support of these efforts.

Another important U.S. treaty ally is the Republic of Korea. The prevention of North Korean aggression against South Korea is indispensable for peace and stability in the region and important to our own security. So far we have been successful in deterring aggression and preventing a recurrence of hostilities on the Korean peninsula. To maintain our support for the U.S.-ROK alliance we propose to continue an FMS credit program that will permit the ROK to improve the capabilities of its combat forces, many of which are stationed with our own forces along the DMZ and would operate with us under a joint command in time of war.

Multilateral Development Programs

Thus far I have stressed the vital role American bilateral assistance plays in promoting the security and stability of the developing world. As I am sure each of you appreciates, this task is far too great for one country to attempt to do alone.

Fortunately, we do not have to. Our friends and allies in the industrialized world devote a considerable amount of their resources to the task of promoting the development process, which in turn yields dividends in the expansion of economic trade and strengthening of democratic institutions. These resources are becoming too scarce to allow for inefficient use of any kind. A coordinated approach among donors has always been desirable. It is now critical.

The principal tool available for such coordination is the pooling of a portion of our economic assistance through the multilateral development banks (MDBs) and the development programs of the United Nations and the Organization of the American States. MDB lending remains a significant and growing source of investment capital for developing countries. In FY 84, MDBs together committed $22 billion in new loans. That a lending program of this size was sustained with a U.S. paid-in contribution of $1.3 billion testifies to the advantages of using the MDBs to share the burden of providing aid. The U.S. benefits directly from the MDB's' efforts to promote strong and sustained progress in the developing countries through increased sales of U.S. goods and services. Indeed, a significant portion of the U.S. trade deficit can be attributed to the decline in purchases by debt-troubled developing countries, a decline which appropriate development assistance can help reverse.

While valuable as a source of development finance, the MDBs play an equally critical role by providing sound market-oriented economic policy advice to their borrowers. They also impose financial discipline on the development objectives of their clients. These institutions are devoting increasing resources to projects and programs designed to support private enterprise in the developing world. For many years, the World Bank's special affiliate, the International Finance Corporation, has focussed on the specific needs of the private sector. The regional development banks are beginning to follow the World Bank's lead. The strengthened commitment on the part of these institutions to private enterprise may prove to be one of the most important factors in supporting a successful development process.

We are convinced that the MDBs have a crucial role to play in advancing world-wide growth and development, and increasing the private sector contribution to that process. We thus consider our participation in them a necessary complement to our bilateral assistance policy. In recent years this Administration, acting in close consultation with the Congress, has sought to reduce the cost to us of providing an effective level of support to these institutions, while maintaining U.S. leadership. We have been successful in negotiating overall replenishment levels which we believe are adequate to the needs of borrowing members but also take into consideration our budgetary constraints.

Maintaining U.S. leadership, however, depends on our meeting these obligations in a timely manner. I, therefore, urge Congress to support fully both our FY 86 request for $1.3 billion and our FY 85 Supplemental request for $237 million.

The United Nations and OAS programs for development also make valuable contributions to the development process. The role of institutions such as the United Nations Development Program (UNDP), the World Food Program (WFP), and UNICEF have complemented our bilateral efforts. We support these programs and continuously and forcefully seek to improve their effectiveness and efficiency.

Summary

In closing, Mr. Chairman, I would like to emphasize the basic theme of this year's budget presentation. We have a responsibility to stick with the policies that have worked or begun to work. Quick fixes, pulling back from the fray, or hoping for diplomatic miracles are not responsible options. But if we stand together, firmly, predictably and realistically defending our principles and our friends, and do so in the steadfast manner the problems require, then we can prevail. Our FY 1986 budget request is designed to do just that.

FOREIGN POLICY GOALS DEPENDENT ON FOREIGN ASSISTANCE PROGRAMS

Senator KASTEN. Mr. Secretary, you might get the microphone a bit closer. I can see the people in the back of the room are having a hard time hearing.

Secretary SHULTZ. Our foreign assistance request for 1986 comes before this committee at a time when this administration and the Congress are committed to bringing down our budget deficit. As a former budget director, perhaps I am more sympathetic than most to the immense challenge this poses and the painful choices that will have to be made.

At the same time, we must bear in mind that our foreign assistance programs are vital to the achievement of our foreign policy goals. A world at peace, freedom, international stability and human progress cannot be built by the United States alone. We need the support and the cooperation of many friends and allies around the world who share our hopes and dreams of a better world, and who rely on us. If we are to count on their support in facing the difficult and sometimes dangerous challenges of the modern world, we must ourselves be a reliable partner. We must be consistent in our devotion to the principles we cherish and proclaim—to promote prosperity, to defend freedom, to help build democracy and respect for human rights, to help alleviate suffering, and to protect our friends and allies against aggression.

I hope you notice I am turning these pages. They are terrific pages——

Senator KASTEN [interposing]. We don't want anything to discourage you, Mr. Secretary. [Laughter.]

BUDGET REQUEST

Secretary SHULTZ. The fiscal 1986 foreign assistance request totals $14.8 billion, a $300 million reduction from the fiscal 1985 Continuing Resolution level. As I will explain later, or perhaps we should do this in the question period because I know you will want to focus in on this, we have yet to determine the economic assistance level for Israel. When that assistance figure is eventually included, our request will be higher than the previous year.

In other words, whatever is requested or you do on Israel, we regard as something added to this, not in some manner taken out of it.

ECONOMIC ASSISTANCE

Economic assistance, which includes Development Assistance, Public Law 480, the Economic Support Fund and contributions to multilateral development institutions, accounts for $8.2 billion. Military assistance, which includes military grants, loans and training, totals $6.6 billion. Then there is some discussion of the further components of it.

And then I turn to the various regions. I won't read through these sections, but we discuss Latin America and the Caribbean, areas of tremendous importance to us, as we know. This is our neighborhood, and we must pay attention to it—Central America, the Caribbean, and South America, generally.

We believe that we are getting somewhere in all of these areas, and we have to keep things moving.

Then we have a section on Africa. I think it is fair to say that where you can point to many promising developments in Latin America, there are almost a run of grave problems in Africa, not the least of which is the hunger in Africa resulting, apparently, primarily from the drought, I would say, to a greater degree from the managerial practices being followed in many countries.

So as we seek to alleviate the suffering with all of our humanitarian instincts, we must also be trying to help people rearrange the way things are managed so that we minimize those conditions for the future.

In areas of South Asia, another area of tremendous importance to us here, of course, our concern about Israel, both from a security and economic standpoint, about Egypt, about the peace process, all are woven in.

There have been interesting developments there which we are all in general aware of, I am sure, and which you may want to raise during the question period.

South Asia, of course, a major foreign policy objective is to obtain a negotiated settlement to get the Soviet Union out of Afghanistan so the refugees can return and the Afghans can exercise their own sovereignty and independence. In our efforts to achieve this goal, it is vital that we help ensure the security of Pakistan in the face of Soviet intimidation. Our 6-year assistance program for Pakistan serves this goal. It is designed to support Pakistan's economy and its development and to help strengthen its defenses through provision of military equipment and training.

The European region, of course, we look at Turkey and Greece and East Asia and the Pacific, Philippines, we know is a country that has some severe problems, and in the case of Korea, of course, we have

U.S. forces there and, in many ways, for anyone who has visited the DMZ knows, it is very much on the front lines, great tension there, although at the same time interesting developments.

MULTILATERAL DEVELOPMENT PROGRAMS

We have a brief discussion of the multilateral development programs, and here we must do our share. We have, we think, scaled our participation to fit what we think is proper and what is in line with enumerable discussions with Members of Congress and, having done that, we think it is essential for the Congress to set both in terms of the supplemental where we are seeking to fulfill our past pledges and then continue our pledges for the years ahead.

In closing, Mr. Chairman, I would like to emphasize the basic theme of this year's budget presentation. We have a responsibility to stick with the policies that have worked or begun to work. Quick fixes, pulling back from the fray, or hoping for diplomatic miracles are not responsible options. But if we stand together, firmly, predictably and realistically defending our principles and our friends, and do so in the steadfast manner the problems require, then we can prevail. Our fiscal 1986 budget request is designed to do just that.

I might say, in conclusion, Mr. Chairman, I appreciate your comments about Under Secretary Schneider and his help to the committee. He has been of immense help to me, and if we both, in fact, are taking his advice, then if there is anything wrong, it is Bill's fault. [Laughter.] But he is invaluable and has a sophisticated understanding of these problems. I appreciate his help very much. Thank you.

Senator KASTEN. Mr. Secretary, first of all, we appreciate your testimony here this morning. I would like to ask Senator Inouye if he has a brief opening statement. Following Senator Inouye's opening statement, we will begin with questions, and I will begin with the light system, trying to move through questions in 5-minute intervals. Senator Inouye.

Senator INOUYE. Thank you very much, Mr. Chairman. Mr. Secretary, I would like to join my Chairman in welcoming you to our hearings and commend you for this presentation because I believe this is the first time in many years we have received the congressional presentation before the Secretary's testimony. These documents, as you know, help us a lot in preparing for this day.

OPENING PREPARED STATEMENT

Mr. Chairman, I have prepared an opening statement. May I request that it be made part of the record?

Senator KASTEN. Without objection, the statement will be made a part of the record.

[The statement follows:]

OPENING STATEMENT OF SENATOR INOUYE

Mr. Secretary, I join with the chairman in welcoming you before the committee. I wish to commend you on your preparation. Today marks the first time in several years that the committee has had the congressional presentation documents for proposed security assistance programs in hand for review prior to hearing testimony from the Secretary of State. These documents immeasurably help our understanding.

Mr. Secretary, I appreciate your remarks regarding the "exhaustive budget review process" you have gone through to develop the proposals before us. I also recognize the need for budget restraint and I want you to know that I will do my part to hold spending down.

I intend to review the President's proposals for foreign economic and financial assistance not only in the context of a governmentwide effort to bring the deficit down, but also in the context of a foreign assistance program which, in the Reagan administration, has been one of the fastest growing areas of the Federal budget.

It should be pointed out that since 1980 international security assistance has increased from a total of $2,655,000,000 to a proposed fiscal year 1986 total of $9,437,000,000. In the same period, the often-maligned humanitarian assistance programs—the traditional foreign aid—have grown by $6 million.

Since 1980:
—Military assistance grants have grown by 632 percent
—Foreign military sales increased by 153 percent
—The economic support fund grew by 78 percent

In the same period, those programs which the President presents in his budget as the subfunction entitled "Foreign Economic and Financial Assistance"—the development and humanitarian assistance which I believe enhances the long-term security of the United States—has seen no growth and, in constant dollars, in fact, been cut by one-third.

Mr. Secretary, I shall listen with interest to your presentation of the justification for further increases in the foreign assistance program.

BIPARTISAN EFFORTS ON FOREIGN ASSISTANCE PROGRAMS

Senator KASTEN. Senator, when you were on your way here, I made a statement saying that it is our intention, certainly it is my intention, to continue the bipartisan cooperation that we have had, which I think is not unique to this subcommittee, but certainly we have shown more cooperation in this subcommittee than other committees in this particular area of congressional activity.

I just want to say to you, I appreciate your help, and we are going to work together with the Secretary and with other members of the administration.

Senator INOUYE. I will do my best.

SUPPLEMENTALS FOR ISRAEL AND EGYPT

Senator KASTEN. Mr. Secretary, the indecision by the administration with reference to supplementals for Israel and Egypt, I believe, are beginning to have an adverse effect, I could even say a serious adverse effect, on the process here on the Hill.

Yesterday, as you probably are aware, when the Budget Committee was considering Function 150, the fact that we did not have a good idea of what the supplemental would be, required us to agree to a budget containing numbers which, very frankly, could raise havoc later, depending on what might happen with Egypt, Israel and the other supplementals.

I know that you have received a strong expression from the Senate and the House and from a number of us personally on this issue, and I know you addressed yourself briefly to it in your opening comments. I do not want to be critical of your personal actions in any way in this regard because I know you have been trying to be helpful, but we simply need to know when these requests are going to be before us.

As I suggested to you when you appeared before the Budget Committee, the budget process is moving, and frankly, yesterday we could have put ourselves in a box that we might not have be able to get out of. The result of this could be that we would not be able to fund the administration's request for Egypt and Israel and the Camp David Agreement, or there could be a serious shortfall of dollars for various security assistance programs across the world. That is where we are.

So I wonder if you could give us a better idea than you were able to in your opening statement as to what is going on here, what the process is, what, if any, progress you expect to make with Finance Minister Modai, who is now here, who a number of us are going to be meeting with over the next few days? Where do we stand; how optimistic are you, and what do you envision these numbers are going to be?

Secretary SHULTZ. First of all, with respect to Egypt, we have made proposals in the budget. Mubarak is coming, and I know he has a number of matters he wishes to discuss, but the President has made his proposals, and they are there.

Senator KASTEN. With regard to Egypt, Mr. Secretary, I was under the impression that there may be a supplemental for Egypt as well as a supplemental for Israel coming in this year. That is what I was referring to, not the 1986 figures for Egypt.

Secretary SHULTZ. I think one of the big issues, and I know Senator Inouye has given this a great deal of thought, has to do with the FMS burden that many countries are carrying, and we see this problem in many parts of the world. It isn't unique to Egypt or Israel or any one country. It is a difficult matter and, of course, that basically underlies the movement of that from a loan grant basis last year, as we look to the future, but in any case, the President has made his proposals insofar as he is concerned, and with respect to Israel, the President has so advised to continue to make a distinction between the security problem and the economic problem, and we do have in the budget the President's proposed security assistance level for Israel, and we believe that figure should hold, and it has been discussed very thoroughly with the Israelis so that is there.

So the piece that is remaining is the economic assistance for Israel, both in fiscal year 1986 budget, and we feel undoubtedly in the end something in the 1985 as far as a supplemental is concerned.

ISRAEL'S ECONOMIC REFORMS

I can't say just when we would feel that it is appropriate to make a recommendation to you on the economic assistance level for Israel. We believe that it is appropriate as we consider what the United States puts up and as the Israelis themselves struggle with their own budget process to wait and have as full a set of facts before us as is possible.

There are still things working in Israel that are in process, and we want to see how they evolve, such as legislation dealing with their budget process and the institutional arrangements under which they will have a greater sense of confidence that the amount they budget is somewhere near the amount that will actually be expended.

Also, the sense in which the Bank of Israel will wind up with a degree of independence. It isn't simply in the position of funding the government's deficit. It has the capacity to follow an independent monetary policy. There are a number of things still in the works that haven't been definitely pinned down, and we believe that it is useful to work with them on matters of that kind, as well as their basic budget problem and other matters before making a commitment.

I recognize fully that it isn't only their budget problem in that we have to be thinking about ours as well, and the numbers in the end will undoubtedly be quite large. And so we will just have to work with you, and we will come in with a number, but we are not prepared to do so at this time.

I might just take the occasion to say that on the Israeli economy, I have every confidence that in the long run, it will be a healthy, sound economy. While our attention is focused, and understandably so, on the immediate crisis, what can be done about the immediate crisis, I believe, and I was struck when Prime Minister Peres was here some months ago, he put great priority on the effort that we might make together to create a longer-run sense of development in Israel in the areas that play to the comparative advantage of Israel, taking advantage of the very capable manpower that they have.

This involves all forms of entrepreneurship, adventure capital, creative use of high technology and, I might say, also some structural reform that will encourage the flow of private investment to Israel. So this is something we need to keep our eyes on.

Senator KASTEN. Mr. Secretary, I know that I and, I believe, other Members of the subcommittee share your optimism and your hope. I want to reinforce the fact that the budget process simply does not give anyone the luxury of waiting, and we could be getting ourselves into a very, very difficult position in which we would not be able to fulfill our basic commitments, not only to Egypt and Israel, but also to other base rights countries around the world. Senator Inouye?

ECONOMIC AND BUDGETARY REFORMS IN ISRAEL

Senator INOUYE. Mr. Chairman, if I may follow up, am I to gather from your statement, Mr. Secretary, that you are satisfied with the progress being made in Israel on economic and budgetary reforms?

Secretary SHULTZ. I think it is always something anyone has to be careful of in making judgments about what is undertaken in another country where the institutional arrangements are different and where the judgment of the people involved has to be respected perhaps over your own judgment.

Having said that, I would say that I am very uneasy about what amounts to a, I think, very skillful, organized system of voluntary wage and price controls as a system that really will work, but I have to have a little humility about my own judgment because they are better judges of their institutional arrangement.

But I think at best, a system of that kind is a way of clamping the lid on the boiler for a short while while you get the heat turned down enough so when you take the lid off, it doesn't explode on you.

So you have to keep your eye less on holding the lid down and more on how high you have the heat turned up, and this is why I tend to focus my attention on the budget and the importance of getting control of it and on the supply of money and on the basic foreign exchange position. On these matters, I think there is still a ways to go.

FAMILY PLANNING PROGRAMS

Senator INOUYE. If I may, Mr. Secretary, change to population, family planning. I am certain you are aware there is much apprehension among certain quarters that in development assistance the administration is about to completely cut out family planning services in developing countries. For example, in your budget, the funding to the International Planned Parenthood Federation has been cut off, and $46 million in population planning assistance, which we had earmarked in fiscal 1985, has been withheld from that U.N. organization.

Does this mean that you are satisfied population growth is not a problem?

Secretary SHULTZ. No; certainly we don't feel that way, although it may be a problem at least in some instances that it has been way overestimated. On the other hand, it is the position of the administration that family planning and programs of that kind in developing countries deserve support, and we do support family planning efforts that enhance parental freedoms to choose the number and spacing of children, to provide critical maternal and child health benefits and make available human and widely desired alternatives to abortion. But we do not support the use of funds for abortion.

Senator INOUYE. So that funds are being withheld from the U.N. effort?

Secretary SHULTZ. That represents a part of the problem; yes, sir.

CONGRESSIONAL POLICY GUIDANCE ON PROGRAM FUNDING

Senator INOUYE. What is your position on the policy guidance of the Congress when you determine which organizations are going to be eligible for program funding? And do you take seriously congressional policy guidance?

Secretary SHULTZ. I always take seriously congressional policy guidance and statutory enactments and have throughout my entire career in government. There has been lots of guidance I received as a Cabinet officer that I didn't agree with, but I believe to the extent of my ability, I have always carried out the legislation I have been entrusted with and felt that my role, if I didn't agree with it, is to come back and complain to you about it, but in the meantime, to carry it out.

Senator INOUYE. Am I to understand the $46 million, which has been withheld from the U.N. organization, will be released?

Secretary SHULTZ. That I have to come back to you for the record on.

Senator INOUYE. I notice that my time is up, sir. Thank you very much.

Senator KASTEN. Senator D'Amato.

INTERNATIONAL DRUG TRAFFICKING

Senator D'AMATO. Thank you, Mr. Chairman. Mr. Secretary, as I mentioned before, it appears we have achieved some strategic breakthroughs with various governments—the Italians in particular—in the area of international drug trafficking. However, as it relates to the trafficking from other areas, particularly South and Central America, the countries referred to in the International Narcotics Control Strategic Report. The report indicates that the countries of Bolivia, Peru, Equador, and Colombia, all are up in their production of coca leaves. It would seem rather discouraging.

In light of what is taking place in Mexico, another discouraging implication, I ask you what initiatives are you undertaking in this matter, in this area?

Secretary SHULTZ. The problem is surely a most difficult one, as the citations you gave show. The fact that it is difficult means that we just have to keep at it and keep at it as hard as we possibly can, and I think, among other things, that means working as closely as possible with most countries where drugs originate. We try to work very closely with them. It is the measure of the difficulty. It is also the measure of the deep significance of the problem because there is a gigantic amount of money involved and in some countries, the drug traffickers combine themselves with terrorists and in a few cases actually with governments, in particular Cuba and Nicaragua, and the combination creates in a country sometimes an alternative government.

It is a problem for them and a difficult one to control. We need to work in every way we can with them.

I would say also that we have to confront the fact that to an extent this is an area where demand creates its own supply, and we have to work even more hard on the problem of drug abuse in the United States because it's the demand for it that helps to create the supply, and it is an interrelated kind of a problem.

But I agree with you, it deserves all the attention we can give it. I try to give it attention; I speak about it, I know, in my visits abroad and work on the problem. It is a very difficult problem.

Senator D'AMATO. In your statement, assuming this will be one of your high priority areas—I am not referring to you—but historically the State Department has not been that involved in this area. I take it from your remarks this is a high priority area.

Secretary SHULTZ. Well, I have been involved in it. I have spoken formally about it and informally about it.

Senator D'AMATO. And you have played a major role——

Secretary SHULTZ [interposing]. In my visits around the world, particularly in countries where we necessarily have programs, we spend time on it, and if there are suggestions for additional things we can do, I am glad to hear them.

There is always this notion that if we are not satisfied with what is happening, what we should do is cut off our relationship with that country, but that doesn't appeal to me very much because that is not solving the problem. The problem will get worse.

LAUNDERING OF ILLEGAL DRUG MONEY

Senator D'AMATO. Mr. Secretary, let me ask you one other thing that relates to the same thing, and that is the area of money laundering, because without that it becomes quite difficult for the successful drug operation to continue, particularly as it relates to South America and other foreign countries.

Are we making progress with, for example, the governments of Panama, Caymen Islands, and Switzerland in combating this by way of a treaty regarding money laundering providing access to various banks and bank information related to criminal activity, money laundering, drug connection, et cetera?

Secretary SHULTZ. We are making progress, but we don't have all the problems solved, and it involves all of the issues that we call conflict of jurisdiction and others call extraterritoriality, but you are immediately involved in that, but we do have some successful negotiations, and I think we are making progress in our ability to get records and extradite people, and so on.

Senator D'AMATO. Mr. Chairman, I would suggest maybe at some time in the future this committee would, with some notice to the Secretary, set aside time to specifically move into the area of international drug trafficking, so that we might make some suggestions and also hear in detail the kind of activities that are being undertaken. Thank you, Mr. Secretary.

Secretary SHULTZ. You bring in the subject of money laundering, and so on. We want to have people from the Treasury involved. That is something they deal with.

Senator KASTEN. I would like to say to the Senator, first of all, I appreciate his interest in this difficult area. I think we made progress in a special hearing this subcommittee held in New York City bringing together different groups.

The Senator from Pennsylvania, Mr. Specter, has written me a letter asking that the subcommittee address this issue. So I think we will, and I think also the Secretary is correct, we can address some of these questions to the Secretary of the Treasury when he appears before us in the very near future, but then we will want to have a hearing on this subject with some of the key people who are involved, because it is very, very important. Senator Leahy?

Senator LEAHY. Thank you, Mr. Chairman. Mr. Chairman, I have a series of questions which I will submit for the record. They go into technical matters which we need not go into with the Secretary today.

Senator KASTEN. Without objection, the questions will be inserted at the conclusion of the record.

OPEN AID TO NICARAGUAN CONTRAS

Senator LEAHY. Mr. Secretary, I wanted to take up a somewhat difficult subject with you, and while it does not directly relate to a question here today, it is related to one that may well be coming before the Appropriations Committee. It has been widely reported in the press that the administration is considering options for open aid to the Contra insurgents in Nicaragua. Open aid or assistance if requested must come before, among other committees, this committee, the Appropriations Committee.

If the administration seeks such aid to the anti-Sandinista rebels in any form, there is a major issue that has to be faced here. There is a growing body of evidence that claims the Contras have committed widespread violence against the civilian population.

Let me state that if there is a request here or in any other committee on which I serve, I am going to insist on pursuing that atrocity issue fully. I am deeply concerned that funds from our government may support any group that takes part in atrocities.

These allegations I have seen do not seem to be simply the work of Sandinista propaganda. Reputable human rights organizations have sent teams to Nicaragua. Their photographs show women and children, burned schools, medical centers, destroyed homes. These are not military targets. A number of Vermonters, people I have a great deal of respect for, have gone to Nicaragua. They have returned with a sense of horror for what they have seen and heard.

I have been given extensive reports from human rights organizations, affidavits by victims of alleged atrocities, terrible photographs, letters from church people, letters from some of my own constituents, as I mentioned earlier. Again, atrocities against noncombatants and civilians. Some of these organizations, I should also note right here, have also described atrocities by the Sandinistas. And if there is a request for aid of this sort, it is certainly legitimate to question the activities of the Sandinistas also, but we are not going to be asked to fund the Sandinistas. I don't think we have to share responsibility for any brutalities they may commit. I simply ask that you and your staff examine this atrocity issue very closely and be ready to respond if there is a request for funding for the anti-Sandinistas.

I think last year we had a situation in the Senate where, in effect, through a series of votes, we voted for that. Then we had the mining fiasco, and the next week we voted to stop it. I don't think the Senate wants to vote in a vacuum this year. They are going to want to vote in full knowledge of the issues and that is one I certainly had a number of Senators approach me and ask me about.

I realize you haven't presented an administration request for funding, but I hope that if you do we will also have a chance to fully explore this other question. I don't think the Senate is going to want to vote until the question of these reports of atrocities has been fully explored.

ARREST OF FRANCISCO GUIROLA

I do have a specific question on another matter. On February 6 of this year, Francisco Guirola, an associate and financial supporter of Roberto d'Aubusson, was arrested with $5.8 million in cash at a Texas airport. Customs officers believed the plane was headed to Central America.

At that time, the Los Angeles Times reported that a high-ranking State Department source said that an investigation would be conducted to look into possible links between this money and political events in El Salvador. Is the Department conducting such an investigation and, if so, what have you found?

Secretary SHULTZ. I believe that the case is an active case in the courts, and we are continuing to try to see what it is connected to, and I am not in position to comment on the finding.

Senator LEAHY. I ask the question partly as a followup to a question Senator D'Amato asked before. At a time when you feel free to comment on it, will you let me know whether the money was drug-related and whether there is any evidence that we have American money supporting any political faction in El Salvador? Is that money linked to any political figure in El Salvador?

U.S. POLICY TOWARD NICARAGUA

Senator D'AMATO [presiding]. Senator Specter.

Senator SPECTER. Thank you very much. Secretary Shultz, I would like to explore with you in this first round of questioning the question of U.S. policy toward Nicaragua. As the issue has developed, I believe there is a concensus in the Congress to support aid to the Contras where Nicaragua is seeking to send arms over to El Salvador to overthrow the Duarte Government. The conclusion on our part is: President Duarte has been elected; he ought to be supported, and the Nicaraguans ought not to be undermining El Salvador's government.

I believe there is a concensus that Nicaragua should not be able to destabilize Costa Rica or take aggressive action to destabilize the area generally. That is on one side.

I think on the other side there is a concensus in the Congress that U.S. policy should not be aimed at overthrowing the Nicaraguan Government. This is a subject which you and I discussed when you appeared here last year. There was a strong vote in the Senate on the issue of the mining of the Nicaraguan harbors, 84 to 12, in opposition to that because it constituted, as many described it, an act of war.

At least from the congressional point of view, we do not wish to overthrow the Nicaraguan Government; I think the administration went along with that; the President signed the appropriation bill in the past.

We do not want to see Nicaragua undermine the duly-elected Government of El Salvador.

Recently, President Reagan had a news conference. The choice of words in that event is obviously not made with the kind of precision that U.S. foreign policy is. It is a difficult circumstance and some interpreted what he said—people interpreted it in a variety of ways—but there is a concern that our foreign policy seeks to overthrow the Nicaraguan Government.

My question to you is, where do we stand as far as U.S. foreign policy, between these two poles, one of overthrowing the Nicaraguan Government—which I think at least the Congress, and I think the administration, is opposed to—and on the other side, stopping Nicaragua from exporting Marxism to El Salvador, Costa Rica, or destabilize South America?

Secretary SHULTZ. Our policy seeks to bring about peace and stability and democracy and economic development throughout Central America. It recognizes that Nicaragua in a sense is a proxy for Cuba and the Soviet Union, but acting upon their own beliefs as well, has a basic policy, an ideology, that calls for destabilization, and they have managed to get themselves the military capability of being able to cause disruption.

In other words, there are many problems in Central America that we must address ourselves to—repeal of democracy, brutal law, economic development—and we all take our turns of being heavily critical of our friends in order to try to help them do better. That is all right, but underneath it all, the problem is Nicaraguan.

What we seek on our own behalf, because our security interests are involved and our ideas and ideals are involved, but also on behalf of our friends in Central America, is to bring about a change in the behavior of the Government of Nicaragua. There are many dimensions of that, and just how they were to take place, there are many ways in which it might take place, but the point is that what we want to see is a Nicaragua governed according to the undertakings that the Government of Nicaragua put forward in the OAS, that the Government of Nicaragua subscribed to when it signed the contadora 21 principle and which seems to be implicit if a draft can be made firm and satisfactory in the kind of contadora document that is trying to emerge. That is our objective.

CHANGES IN NICARAGUAN BEHAVIOR

Senator SPECTER. Mr. Secretary, the United States has dealings with the Soviet Union, which could be said to have the same philosophy as Nicaragua. We have dealings with the Peoples Republic of China—the President made a trip there—which has the same philosophy as Nicaragua.

I am pleased to see and find foreign policy in terms of changing the behavior of the Government of Nicaragua as opposed to an interest in overthrowing the Government of Nicaragua.

I am concerned that there might be some who think those lines become blurry. What do you see if, in terms of the attitude of Nicaragua, their behavior does not change? That we might seek to go further and have an administration policy to seek to overthrow the Government of Nicaragua?

Secretary SHULTZ. Well, I suppose the thing I noticed the most in my direct discussions personally and in the discussions held by others with Nicaragua, either in multilateral or bilateral forums, is the sort of curve of reasonableness as defined from our standpoint of Nicaragua, and the curve pretty much is a reflection of the amount of pressure that they feel. When they don't feel much, it is pretty hard to get their attention, and if they do feel some, then they are more interested in the sorts of things we want to talk about.

Senator SPECTER. So the long and short of it is, with appropriate pressure we can have sufficient changes in their behaviors so we can coexist with Nicaragua?

Secretary SHULTZ. Well, I don't know that that is the answer. One would hope that they would change their behavior. I don't think that the record of firmly-established Marxist governments gives you much encouragement that that can happen, and the record of the appetite of Marxist governments for additional territory doesn't give you much comfort in the feeling that they will want to stop on the borders of Nicaragua if they have the opportunity to expand themselves elsewhere.

That is basically the reasons the countries in the immediate neighborhood regard Nicaragua as such a threat.

Senator SPECTER. And if they don't change their behavior to our satisfaction, then what?

Secretary SHULTZ. Well, from our standpoint, we have to keep pointing out what they are doing, and we have to keep supporting those who fight for freedom in their own country and those who oppose these kinds of policies, which I assume we all oppose. I certainly oppose them.

Senator D'AMATO. Senator DeConcini.

GENEVA ARMS CONTROL TALKS

Senator DECONCINI. Mr. Chairman, let me first say something positive.

Secretary SHULTZ. Thanks a lot. [Laughter.]

Senator DECONCINI. I want to thank you and compliment you and the administration on the forceful efforts you appear to be making in Geneva. I think it is the single most positive thing that the President and you as Secretary of State can attempt to bring about.

I want you to know this Democrat on a nonpartisan basis intends to do all he can to support that effort.

Saying that, let me switch to another subject, and that is the Middle East, which Senator Kasten and Senator Inouye asked you about.

Secretary SHULTZ. Can I make a comment before you do that?

Senator DECONCINI. Yes, sir.

Secretary SHULTZ. I am particularly attracted to your word "nonpartisan," because I think as I have sensed it in talking with many Members of the Senate and House, that is the spirit that people have toward all of this. It isn't partisan, and it isn't bipartisan. It is nonpartisan. It is an American effort; we are trying to do something constructive for the world and partisan politics is not involved. I welcome your choice of words.

Senator DECONCINI. I agree, Mr. Secretary. I believe there is that nonpartisan effort. I have talked to many Democrats, and they feel just as strongly as the administration.

ISRAEL AID

Going to the Middle East, and particularly the lack of a budget mark here and a request for Israel, I know that the effort has been to bring about economic change in Israel. I am sure you are aware of the substantial changes that they have made, such as the decoupling of the indexing on labor increases and some difficult budget cuts, and I am sure you are aware that over 50 percent of their whole budget is to finance their debt. Add another $4 billion for defense and it leaves them a very small amount of dollars to deal with.

Mr. Secretary, I hope the administration—and I would like your response for the record—is not considering bargaining with Congress on any military aid package to other Mideast countries on the amount of assistance that we ultimately will give or grant or loan to our ally Israel. It would be a mistake in my judgment.

I would like to know your view of that situation and whether or not that is under consideration, and if it is not under consideration, why we have not received a number in this particular area?

Secretary SHULTZ. That is not the way I conceive of it at all. It is not the reason why you don't have a number. I agree that we must (A) consider the security and economic needs Israel has, and (B) be as helpful as we can possibly be to the Israelis.

For that reason, the President recognized the distinction in a sense between security problems, as such, and economic problems and put forward a very strong security assistance recommendation for Israel and Egypt, for that matter, independent of our efforts with the Israelis on their economic problems.

I think the economic problems and what we do in connection with them have to be considered on their merit and the way of judging what we should do should be in terms of what will be genuinely helpful there, and among the reasons why we have held back is, among other things, if we come in too fast with some amount of money, it tends to weaken the effort to confront these problems strictly themselves, and in the end, the economic problems of Israel have to be solved by the Israelis. That is what they say.

Senator DECONCINI. Mr. Secretary——

Secretary SHULTZ [interposing]. Because it is disconnected from any subsequent request.

U.S. ARMS SALES TO MIDDLE EAST

Senator DECONCINI. Because of our time, I have another question I want to ask you on this subject matter. I had the opportunity to meet with Mr. Peres recently, and I asked him this question, and to Israel's Defense Minister. If the United States moves toward an arms sale or arms financing to the neighbors of Israel, will this require the Israeli Government to increase their defense budget above the amount that they have planned for this year? And the answer was that their defense budget is based on the tremendous Syrian arms buildup and on the force levels presently in Egypt, Jordan, and Saudi Arabia. I want to know whether or not the administration does plan arms sales or credits to any Mideast countries this year, and if you can give us any idea as to the quantity and the time that might come about?

Secretary SHULTZ. The subject is being studied in connection with our overall evaluation of the strategic situation in the region and my own expectation is that at some point during the year, perhaps in the first half of the year, we will make some proposals for sales of arms. I must call your attention to the fact that as important and close to us as the Arab-Israeli conflict is, that with our strong desire to help bring peace between the Arab countries and the Israelis, that is not the only problem in the region.

There is a war going on between Iran and Iraq. It has had its offshoot in the tanker war in the gulf and, as a matter of observation, the fact that the Saudis have some capability militarily to deal with actions from Iran in their neighborhood with our assistance, I think has been very beneficial in stabilizing. In other words, what I am saying to you is that there are legitimate considerations involved——

Senator DECONCINI [interposing]. We would reverse what was done.

Secretary SHULTZ [continuing]. In how it affects that balance. We must be watching that balance, and it is in the light of the buildup in Syria and other such things that have led us to agree with the Israelis with all of the difficulties in our budget this year that we are and you all are struggling with to have a big step up from $1.4 billion to $1.8 billion in the military assistance to Israel on an all-grant basis. That is a big percentage increase.

Senator DECONCINI. The point is if we supply more arms to Saudi Arabia or Jordan, that is going to require Israel to spend more, meaning we will have to give more. I hope it is fully realized how these variables fit in the equation. I have further questions. I will wait until another round.

MULTILATERAL DEVELOPMENT BANKS

Senator KASTEN [presiding]. Mr. Secretary, the multiyear budget projections by OMB we are working from in the Budget Committee make the assumption that when the current replenishments for IDA, the Asian Development Bank, the Inter-American Development Bank, and also the African Development Bank are paid, we will no longer be participating in those organizations. Specifically, organization by organization, I would like to ask if you are thinking in terms of just stopping our participation completely, which is what the OMB budget assumptions indicate, or if you are thinking of reducing our participation over a period of time. If you disagree—I don't mean that you disagree with the budget assumptions, but some in the Budget Committee were saying really all the administration is doing here is playing with mirrors and paperclips, and in the end, even if the administration were to make a recommendation to withdraw or to stop funding all those organizations that the Congress might, in fact, act to do it also and these are false budget savings.

Specifically then, what are the plans of the administration for the soft loan window of the World Bank, the International Development Association?

Secretary SHULTZ. As a general problem situation, Mr. Chairman, it is inconceivable to me personally as a U.S. citizen that we would withdraw from these organizations that we helped create and think, broadly speaking, have played a constructive role in economic development.

The picture, I think, means that the question of what kind of participation we should have is open, and we haven't been able to settle that. That may be about what I would answer organization by organization.

Senator KASTEN. There would not be any significant difference, in other words, in your view for the Asian Development Bank, the Inter-American Development Bank or the African Development Bank? In all these cases, it would be your view that we, in fact, will continue at some level for an indefinite period of time; is that what you are saying to me?

Secretary SHULTZ. I think there is a reexamination going on very broadly, not just here, about the process of economic development and the role of concessional aid in it, and we are part of that process, and we have had a lot to do with stimulating it. I think it is very helpful myself.

ROLE OF EQUITY CAPITAL IN DEVELOPMENT

The broad proposition, looking at economic development, I think the age when we saw economic development mainly withheld from commercial bank lending, that age is over. What we have gotten for that is a lot of debts that people are having a tremendous amount of difficulty paying. I think the age of big increases in concessional aid, as a way of funding, is not in the immediate future. That doesn't mean that it ceases, but I think in this reevaluation, more and more countries are seeing that they must look at the question of equity-type capital because while it has been, in a sense, more and more rejected by developing countries on the grounds they want to own everything, what they see is that borrowed capital, on the one hand, is debt. The bankers are interested in getting paid back. That's it. Whereas equity capital cares, equity capital brings skills, it brings concerns, it brings drive, it brings technology, it brings access to markets, it brings a lot of things that debt doesn't bring, for that matter, concessional aid doesn't bring.

So I think people have to review some of their political thinking in the light of these emerging facts. How all of that will play out and what its bearing will be on the role of the international development institutions is something we need to work through, and I was struck and very encouraged, for that matter, by the report of the World Bank on African economic assistance.

The report they issued, I think, was along about last September in which the general philosophic underpinning, it seemed to me, was moving in quite a healthy direction.

So I think there is a lot of reexamining to do, and it is a genuine set of problems. So we have to see. In the end, I am sure there is a role for these institutions.

Senator KASTEN. Mr. Secretary, as you know, I agree with your general philosophy in terms of development assistance. As you know, we want to work with you in terms of working with these institutions in order to try to encourage them to do more private sector projects, more efforts away from cheap food policies, et cetera, particularly in Africa.

BUDGET LEVELS FOR MULTILATERAL DEVELOPMENT BANKS

We are going to work with you, but we have had controversy with the administration over, for example, the $750 million level for IDA. At one point in the previous administration, commitments were made for significantly higher contributions than that. We went through a lot of rankling with the Department of State and the Department of the Treasury in order to meet a certain level of assistance, and we now have established that.

As you well know from your previous experience at OMB, we are fighting number games to a point here. To the degree that OMB or the administration suggests that we are dropping out of each of these organizations, and then we fund money in other accounts, the so-called "freeze" is distorted. It is clear to me, I happen to agree with your answer, I think we are going to continue to support these organizations, but if we are going to continue to support them, we ought not then to put in the budget the assumption we won't, knowing we will because it is simply going to bump up the baseline or, as I was worried about in the case of not having the request in for Egypt and Israel, simply squeeze us on base agreement countries, security assistance, whatever.

I am concerned we ought to be a little more truthful in budgeting in out-years for these organizations if, in fact, the plans of the administration are as you have described. That is why I am bringing that whole set of questions up, so we know where we are going before we get squeezed on programs that I think are very important to us and the free world.

Secretary SHULTZ. I appreciate your comment, Mr. Chairman, and I share the concern. I also believe that it is useful to make projections 3, 4, and 5 years out. It gives you at least some rough guide.

But I would doubt that there are a number of projections that 5 years from now will turn out to be precisely the right number. Man is not capable of making that kind of projection. You are talking when you get out in that distance in terms of the best you can do, and I think the honest answer on the international financial institutions is that there are a great many questions concerned that need to be evaluated but at least from my perspective in the end, waging them would be a mistake, and I don't think it is going to happen.

Senator KASTEN. Senator Inouye.

EL SALVADOR

Senator INOUYE. Thank you. In May of last year, Jose Napoleon Duarte was elected President of El Salvador, and soon after his election, he initiated discussions with the guerrillas and appointed a commission to investigate some of the more notorious murders.

Now, I have been told that the discussions have been terminated or postponed. I would like to know why. And, second, the investigation has not gone on because the National Assembly, which is led by Roberto d'Aubuisson and his political party, has refused funding for the investigating commission; is that so?

Secretary SHULTZ. I don't believe so, but I would like to give you a studied answer for the record to that question. It is an important question, and I don't have all of the material on the top of my mind here right at the moment. I do very much support the efforts that President Duarte has been making in El Salvador—democracy and then support democracy with a rule of law. You don't have a working democracy unless you have a rule of law. He is trying very hard to bring that about and, I think, with a very fair measure of success. He has cleaned up some of the past worst cases and is definitely doing everything he can to move in that direction.

Senator INOUYE. I would appreciate it if you could provide some response for the record.

March 31 will be election day once again in El Salvador for the National Assembly. Just for the record, because it pops up every so often, is the U.S. Government providing financial contributions for this election?

Secretary SHULTZ. No, sir. We support the electoral process and the extent the process itself needs help, well, we are prepared to do that, but that is different from what I think you have in mind. I will clarify that for the record.

[The information follows:]

EL SALVADOR: PEACE PROCESS AND INVESTIGATIVE COMMISSION

Secretary SHULTZ. Representatives of the Government of El Salvador and the FMLN have not met for dialog since the November session at Ayagualo. At that session, the representatives of President Duarte had hoped to be able to discuss the possibility of drawing the FMLN-FDR into the March 31 elections. Instead, the guerrilla representatives presented the same set of rigid demands which they had presented before in public propaganda broadcasts. Analyzing the results of this meeting, the Salvadoran Government concluded that there was no chance of convincing the guerrillas to participate peacefully in the March 31 elections. Thus, the political pressure for immediate followup sessions was eliminated. The talks have not been suspended. I am sure both sides to the dialog are studying and considering future positions and responses. Not surprisingly, most of the Salvadoran political community has been totally involved in the March 31 election campaign for the past several months. President Duarte has announced that he will resume talks with the guerrillas after the elections, maintaining his goal of seeking peace through dialog with the FDR/FMLN.

I turn to the subject of the investigative commission established in August 1984. The commission was appointed by President Duarte to investigate several of the most notorious crimes committed in El Salvador. It has focused its initial investigative efforts on the assassination of Archbishop Romero. The commission has not yet completed its investigation of the Romero murder. The work of the commission has been made more difficult by severe budgetary restrictions. Early this year the Salvadoran Legislative Assembly voted to reduce the discretionary budget available to President Duarte. That budget is for support of the operations of the presidential staff and also supports the activities of presidential commissions. The net effect of the assembly's action was to severely restrict the funds available to President Duarte and his immediate staff. The commissions established by Duarte, the investigative and probity commissions, were subject to the same financial restrictions but were not specifically the targets of the assembly action.

SLAYING OF AMERICAN NUNS

Senator INOUYE. Last May, five former members of the El Salvador National Guard were convicted of the 1980 slaying of four American nuns. On June 19, the Salvadoran authorities imposed the country's maximum penalty of 30 years in prison for those convicted. To your knowledge, are these men still incarcerated?

Secretary SHULTZ. Yes, sir; I believe so.

Senator INOUYE. Last year, the administration pointed to the arrest of Capt. Edouard Avila as testimony that the Government of El Salvador is making a strong move to curb human rights abuses. Captain Avila, as you recall, was said to have planned the murder of Michael Hammer and Mr. Perlman, the two men who were working for the AFL–CIO.

I have been told Captain Avila has not been arrested, is that correct, that he is free?

Secretary SHULTZ. You are asking me a series of questions that have precise factual answers, and I just am not carrying around in my head what the answers are. I work on these problems all the time, and I think I have a general awareness, but I am not instantly equipped to answer, and I am a little concerned to give something that comes off the top of my head that may not be correct. When you are asking not a question of judgment but a question of fact, if I may, I would like to take those questions and submit answers for the record that are studied, and I will look into it carefully, if I may.

Senator INOUYE. Thank you very much. Mr. Chairman, I have a whole batch of questions here I would like to submit to the State Department for the Secretary's response, if I may do so.

Senator KASTEN. Without objection, the questions will be submitted. Senator D'Amato?

CUBAN MERILITAS

Senator D'AMATO. Thank you, Mr. Chairman. Mr. Secretary, sometimes we have so many of our own individual priorities on a list that we do not extend to you the great credit for the peace initiatives, the Geneva meetings that are being undertaken, and some of your day-to-day activities.

For example, I think you have performed an extraordinary effort in terms of the extradition relating to Colombian drug runners in your continuing effort to achieve prosecution in that country. The effort I alluded to with respect to Italy, has been undertaken for many years, and recently in the terms of coordinating our activities against organized crime—the Department of State has worked wonderfully on those initiatives.

Also, something rather recently announced from the State Department dealing with the Cuban Merilitas. In 1980, along with 125,000 Cubans, there were thousands of those who came from mental institutions, hardened criminals. I think you restored a breakthrough in terms of the very sensitive negotiations over a period of time to provide for the return of 2,743 Merilitas, and that was a magnificent breakthrough.

I recently had the opportunity of speaking with your Senior Deputy Assistant, James H. Michel, who I think is an extraordinarily gifted, talented career person. He is the Deputy Assistant Secretary for Inter-American Affairs. We reviewed the Merilitan exchange, which provides for 100 criminals, some in Federal detention, some in State, to be sent to Cuba on a monthly basis.

Mr. Michel acknowledged that there are a number of Merilitas who fit the profile who are either from criminal backgrounds prior to coming to this country or who have committed felony crimes and who are in our State institutions at the present time. He has indicated that he will review this matter and the State Department is concerned enough to see if they can also be included in this agreement, and I would urge you to review this and see what efforts you can undertake to expand this list for those who fit the general profile that the Cubans have agreed to take back.

I think it would be a measurable assistance to law enforcement efforts rather than have them return to the streets after they serve their sentence. In New York alone, we have approximately 358 in our State prison system. I know the State of California, Florida, and Pennsylvania have some, and the number will probably exceed 2,000.

Mr. Secretary, while I applaud these initiatives, I would hope you would be cognizant of this particular area of concern.

Secretary SHULTZ. Thank you.

Senator D'AMATO. Thank you, Mr. Chairman.

Senator KASTEN. Senator DeConcini.

U.S. RELATIONS WITH MEXICO

Senator DECONCINI. Mr. Chairman, thank you. Mr. Secretary, in view of the recent turn of events in our relations with Mexico, both in terms of the difficulty regarding the drug problem and the effects of the U.S. response along the border, Senator Domenici and I as members of the bipartisan U.S. Senate Border Caucus which is bipartisan, have just written to the President asking for a meeting and a detailed briefing of what is going on.

In light of the few minutes we have here, I really have a couple of questions, if you could be kind enough to respond to us. I would like to know the present status of our sanctions or pressure against Mexico, the government. I would also like to know whether or not you and the State Department have found that merely harassing or taking long periods of time to let people cross into the border at the border stations has really been an effective means for dealing with the Mexican Government. Are there not other economic relationships that we could use to apply pressure, such as some of the loans that are outstanding, the cash advance payments for oil, some of the loans that are pending before the International Monetary Fund that we could slow up? Are these not better retaliatory actions or pressure than the border harassment than the ones we are using?

Can you comment generally and then specifically on what sanctions might be used rather than the border holdup? We are really shooting our economic foot there, and I wonder if we are achieving anything?

Secretary SHULTZ. Well, of course, the examinations on the border were motivated by the desire to examine absolutely as carefully as possible whether or not the kidnapped person who has since been found to have been killed was in any of those vehicles. So that had a direct purpose connected with our intense concern over the kidnapping.

It did have the attribute that it certainly did get everybody's attention. To that extent, I think it was helpful.

SANCTIONS AGAINST MEXICO

The use of speeding up or slowing down various kinds of financial arrangements that are part and parcel of a more general effort to help Mexico deal with its debt problem, for that matter help the world in general deal with its debt problems, are a different matter, and I don't personally think that it is a particularly good idea to play around with those things in the spirit of sanctions.

Senator DECONCINI. What are we supposed to do, Mr. Secretary, when, according to our law enforcement agencies, they have failed to respond in a meaningful way from the top to investigate the recent murders and other missing Americans? What do we do as a nation? Just disrupt the lives of people on both sides of the border?

Secretary SHULTZ. We have to point out forcefully to the Mexican authorities what the problem is and unequivocally so, which we have been doing. I think it must be apparent to them that they are—I was going to use the image of cutting their own throat. I don't think that is appropriate under the circumstances. They are hurting themselves by this process because they are heavily dependent upon a flow of tourism, and it is undoubtedly going to be importantly affected by all of this. So it is in their interest as well as our interest to take steps to clean up these problems. They are deep-seeded problems. They are not new and so we need to work on them in that manner. To just pull the plug on all financial arrangements with Mexico——

Senator DECONCINI [interposing]. I am not suggesting that.

Secretary SHULTZ. I don't think it is constructive.

Senator DECONCINI. What I want to know is has it been made clear to the Mexican officials that if something isn't done regarding the corruption within the law enforcement in Mexico, if something isn't done on a national level to respond to the murderous terrorist activity toward our law enforcement agencies that we as a country are prepared to take some action that is going to be more than just stopping cars at the border? That is really my question.

Secretary SHULTZ. I think it is clear in the situation that our level of tolerance has been exceeded by these events.

Senator DECONCINI. And that has been delivered to——

Secretary SHULTZ [interposing]. And they know that. Exactly what you do about it and exactly what they do about it and their response is something that we work on with them and remains to be seen.

I would point out that at the ranch where the bodies were found, a raid was conducted by the Mexican authorities. There was one killed and several wounded; I think five. So they are not without their responses in this situation.

Senator DECONCINI. You are aware of, and don't doubt, the problem of the corruption with some of the prosecutors and some of the law enforcement officials who have not responded to our law enforcement request to investigate and pursue and to prosecute?

Secretary SHULTZ. Yes, sir.

Senator DECONCINI. Thank you. Thank you, Mr. Chairman. Thank you, Mr. Secretary.

Senator KASTEN. Senator Specter.

Senator SPECTER. Thank you, Mr. Chairman.

Senator DECONCINI. I have some other questions I will submit for the record.

Senator KASTEN. Without objection, the questions of the Senator from Arizona will be submitted at the conclusion of the hearing.

MX MISSILE VOTE

Senator SPECTER. Secretary Shultz, in 2 weeks we will be called upon to vote on the MX, a subject which has taken a significantly different turn as a result of the pendancy of the Geneva talks. Last year, after Congress acted on the subject, there was a widespread conclusion that the MX was dead, probably dead. And the issue now has a very different posture because of the pendancy of the Geneva talks.

PROBLEMS WITH MX MISSILE

There are substantial problems with the MX as a weapon, and I don't intend to get into those details with you now. Secretary Weinberger is coming before the Defense Subcommittee this afternoon. They are problems which give rise to the concern that it would be viewed by others as a first-strike weapon. We know that is not our problem, but the problems on hardening and the absence of a solid basing mode at least cause some concern on some policy, that is, launch-on-warning, as to whether we are really sure that missiles from the Soviet Union, for example, are in the air.

There are reports today about problems on testing. There is a concern as to whether the MX is really worth the money, contrasted with the D–5 submarines, with the deployment of the Pershing II in Europe, Cruise missiles. So that given the problems of the deficit, military expenditures, cuts in the budget, and our alternative firepower, there are so many issues as to the real value of the MX. It takes on a totally different posture with the pendancy of the Geneva talks, and the concerns about not undercutting our negotiators there.

The question that I have is, in the context that it is highly unlikely for Geneva to do anything but first step—and it is a very important first step—we applaud you for the preliminary work you have done. There is probably no subject of greater importance in the world than arms control with the Soviet Union. There probably is no greater subject. Coming to Geneva, it is an enormously important matter.

But, in the context, Geneva is likely to be a first step, small step. There is not going to be any enormous breakthrough in Geneva because there are so many difficult problems.

Is it really wise to saddle ourselves with a weapon if we conclude as objectively as we can that it is not really a sound weapon, in the long-range arsenal of the United States? Is it really sound to respond to the pressure of the Geneva talks to improve the MX in the context that Geneva in and of itself can't be decisive and the MX can't really be all that weighty as contrasted with really committing ourselves to a weapon that does make good sense?

Secretary SHULTZ. First of all, I myself view the MX missile at this time as our best land-based ballistic missile that we have available. And as a missile that potentially can perform in a central role in the Triad Strategic System that we have.

So under the merits, I think it is something we should do.

On the point of hardening, that you mentioned, as I understand it from many quarters, there are presently understood ways in which a very large factor of improvement in hardening, a great multiple of the PSI capability can be gotten and perhaps additional is possible.

So while that is not in the immediate plan, it is lying as a potential for the future. And I think to the contrary of what you said, hardening of our missile silos improves the survivability of those missiles and, therefore, makes it less possible for the Soviets if they contemplate, and I am not saying they are contemplating, but if somebody is contemplating a first strike on us, it makes it a more difficult proposition for them.

So it is desirable, not undesirable, and I think it is a prospect that is definitely there. So the first point I am making is that I believe myself that it is an important weapon to have as part of the Triad of the strategic forces we have.

Second, I think it is a significant element in our whole defense posture and particularly a piece of what is being discussed in strategic arms talks at Geneva, the one that Senator Tower will be our ambassador and negotiator in, and I do think it would be a great detriment and disservice to our negotiators to suddenly pull that out from under them. But I don't sit here and advocate it pure and simple as a matter in the light of Geneva although I think that does, as you suggest, add a dimension.

In my own thinking, I rest it on the fact that I think it is an important part of the Triad of our strategic defense.

THE MX AND THE GENEVA TALKS

Senator SPECTER. Mr. Chairman, if I might have one brief followup here. There are arguments on both sides as to whether it is worth the money as a weapon. I think it is fair to say that the congressional view last year was that it was not. We had Senator Goldwater make that declaration and now he has changed his position. But if you start with the conclusion—I understand if hardening goes forward, that would make a tremendous difference; if there was a solid basing mode so it did not have the appearance of first strike, or it did not have to be launched on waring, if it had a better basing mode, my view would be significantly different—but given a congressional view, which is different from the administration view, we have different functions in our position here, given a congressional view that I think the MX has certainly lost, absent Geneva, and this comes in as your role as the spokesman on foreign policy and the architect of those talks, can we expect enough to happen in Geneva, really, to pay for a weapon that otherwise we think is a bad weapon, even though you think it is a good one; we think it is a bad one? Geneva might produce enough to make that expenditure for what we don't think is a worthwhile weapon.

Secretary SHULTZ. When you say the Congress thinks it is a bad weapon, I can't help but say that the Congress is made up of a lot of individuals and they don't all vote the same way on everything, and the fact of the matter is, that with all of the argument, the MX Program, the Peacekeeper or, as I think Senator Goldwater has said, it should have been called the Minuteman IV, which is correct. It is a modernization of what we have. It is a program in being and the Congress has funded it and voted for it.

So if we didn't have Geneva, we probably would still be having the argument, and I would concede the outcome.

But at any rate, the Geneva talks are there, and I don't think we should be approaching the vote on the MX and Peacekeeper missile on the basis that there is going to be some quick result in Geneva, and this is going to help bring it about. That is not the way to look at it at all. I think it is very unlikely that there will be a quick result in Geneva, although our negotiators will go with a strong and constructive position and are prepared to work, but the history of these negotiations is that they take not weeks or months but years to complete their work.

The subject is complicated and difficult, and I think we should go there and prepare to be patient and to, as Ambassador Kampelman said yesterday in talking to a group, decide that the winner is the side who is ready to stay there a week longer than the other guy. We have to be patient. In saying that, I mean the Congress, the American people and our allies all have to work in a patient way, a difficult long, tough negotiations.

Senator SPECTER. Thank you. Thank you, Mr. Chairman.

U.S. SECURITY RELATIONS WITH GREECE

Senator KASTEN. Thank you, Senator.

Mr. Secretary, 2 weeks ago in testimony before the House Foreign Affairs Committee, administration witnesses revealed it is engaged in contingency planning to remove U.S. air and naval bases from Greece after 1988 if Papandreou adheres to his public position that the bases are to be closed at that time.

First of all, has Papandreou given us any indication he will rethink or is rethinking that policy; and, second, if he continues to refuse to participate fully in NATO and also refuses to allow us to use those bases, what, if any, plans would we have for economic and military assistance for Greece?

Secretary SHULTZ. Well, that is a very big, broad question full of the present and quite a long ways into the future involving things that I am not prepared to talk about. I don't mean that I am not willing to talk about it; I just don't know everything there is to know about the subject. But it does seem to me that the behavior of the Greek Government and the statements made by Mr. Papandreou cause great problems for us.

What he says, if we take him anywhere near at his word, puts great question marks about the future of our bases and our relationship with Greece.

I might say that he tries the patience of his European partners as well. So I think there are some great problems with Greece, and we must be prepared to look at them. We regard the people of Greece as great friends of ours, and we want to be supportive and helpful, and we want to have a strong alliance and friendship relationship with them. That is our object. But we all have to remember when people say, oh, that's what somebody said, but he really doesn't mean that and in private he doesn't say that, so forth, I don't buy that. I think public officials have to be very careful with what they say publicly because the rhetoric winds up taking on its own reality, and so one must take very serious what somebody says publicly about a relationship or about bases or about other matters.

Many of the statements made by Papandreou are worrisome to us.

Senator KASTEN. Mr. Secretary, I know. This subcommittee personally shares your concern about the friendship and support of the Greek people, and we have on several occasions taken initiatives in order to help and support them. I hope very much that we are going to be successful in working through the problem with the bases and also successful with working through the problems of the constitutional crisis in Cyprus.

I have some questions for the record that I will submit on both of these subjects because I am interested in more detailed answers. Also, without objection, some questions from Senator Bennett Johnston will be submitted for the record. Senator Hatfield.

Senator HATFIELD. Thank you, Mr. Chairman. Mr. Secretary, welcome. How many committees have you appeared before this week, the last 2 weeks?

Secretary SHULTZ. I lost count. This is the season, and it is a welcomed part of our process, and you don't hear any complaints from me.

HUMAN RIGHTS VIOLATIONS IN NICARAGUA

Senator HATFIELD. I appreciate your generosity, but also it is a necessary review of how many committees have jurisdiction to call you up here.

Mr. Secretary, have you had a chance to read a report entitled, "America's Watch Report" of a highly respected—at least according to my information—group who have assessed the violations of law of war on both sides of Nicaragua from 1981 to 1985?

Secretary SHULTZ. I haven't literally gone through the report myself, but I am aware of the report.

Senator HATFIELD. In this report, Mr. Secretary, the information was incorporated that relates back to the Sandinistas' abuse of human rights, particularly in 1981 and 1982 against the Miskito Indians and the mass killings that have occurred during that time, and the sudden disappearance of the Miskito Indians.

The report indicates that thereafter, there was a sharp decline in the violation of human rights attributed to the Sandinistas.

Then also in this report, it indicates the contras, and I quote, "Have systematically violated the laws of war throughout the country. They attack civilians indiscriminately; they have tortured and mutilated those in combat, taken hostages," et cetera.

I have heard that the contras are being referred to as sort of our freedom fighters, and our brothers, being compared to the founding fathers of the American Revolution. It bothers me that if there is validity in this report, that we view these two sides in such contrasting ways based upon that kind of record of violation of human rights. I am just wondering if you would comment on this report, or if you have not had a chance to read it in detail, please give us an assessment of this report. Because I think if it is legitimate, it is unacceptable for us to then appropriate money to support one side we call our friends when they have that kind of a human rights violation record.

I am not ready to jump to any conclusions, but I want your assistance in bringing my own thinking to something.

Secretary SHULTZ. I will undertake to have prepared and submit it for the committee's record an analysis of this report.

[The information follows:]

COMMENTS ON MARCH 1985 AMERICAS WATCH REPORT

The Department of State has carefully reviewed the Americas Watch Report, "Violations of the Laws of War by Both Sides in Nicaragua, 1981-1985," issued in March of this year. The comments which follow are not intended to be exhaustive, but set forth the broad conclusions, including certain important reservations regarding the Report, reached in the course of that review. Some of the matters discussed in the Report have been discussed separately with the House and Senate intelligence committees.

The Americas Watch Report concludes, on the basis of apparently substantial evidence, that serious violations of the laws of war have been committed by both sides in the armed conflict in Nicaragua. The U.S. Government condemns such violations whenever they occur and by whomever they are committed.

The authors state that the Report is strictly limited to violations of the law of war, and that it does not examine other human rights abuses. Accordingly, the first section of the Report amounts to a detailed treatise on the specific rules which Americas Watch believes apply as a matter of international law to the internal armed conflict now taking place in Nicaragua. In this section, the Report adopts certain legal conclusions on a number of important issues that have been much debated but never in fact definitively settled, including: (1) the degree to which particular provisions of Additional Protocols I and II to the 1949 Geneva Conventions may express existing customary international law; (2) the degree to which -- if at all -- various aspects of the laws of war apply to or legally bind insurgents; and (3) the application of general law of war principles (such as the rule of proportionality) to specific types of targets and specific situations.

The Department does not necessarily agree with all of the detailed conclusions reached on these matters, and does not seek to resolve these issues here. We do believe, however, that the Report is manifestly incorrect in its apparent conclusion that naval mines are "blind" weapons whose use is not permitted under the laws of war; on the contrary, the use of naval mines is well accepted under international law and practice, subject to certain internationally-agreed technical rules. We are aware of no allegations that those rules were violated in the naval mining to which the Report refers.

The Department does fully agree with the overall conclusion that it is appropriate to measure the conduct of the parties to the Nicaraguan conflict against the standards of Article 3 common to the Geneva Conventions. This includes the provisions in that article regarding humane treatment for wounded and captured combatants and persons taking no active part in the hostilities, as well as the prohibitions on violent acts, summary executions and hostage-taking with respect to such persons.

In defining the criteria to be applied, the Report makes several important points often overlooked in discussing the conflict in Nicaragua. For example, the Report notes that the fact that civilians are harmed incidentally to a legitimate military action, as in an attack on a village organized as part of a defensive position, does not in itself demonstrate a violation of the laws of war. Similarly, attacks on economic targets are not in themselves unlawful, and such targets -- notably including export-earning products -- can be legitimate military targets in appropriate circumstances. Thus, the fact that an attack is made on a coffee plantation rather than a military post does not in itself constitute a violation of the law of war. Rarely, however, do the accounts of incidents provided in the Report adequately address whether the target constituted a legitimate military target.

The Report correctly underscores that all sides in the conflict have at least a moral obligation to spare, to the extent possible, civilians not participating in hostilities. Among the most tragic aspects of the armed conflict in Nicaragua is that it is often difficult to distinguish clearly between non-uniformed members of the militia and non-participating civilians. Members of both may be riding in the same military or civilian vehicle or taking cover in the same trench and can be told apart, if at all, only by the fact that some are carrying weapons or performing another military function and others apparently are not. Under these circumstances, it is exceedingly difficult to draw meaningful conclusions even from credible eyewitness reports that civilians have been killed in an incident.

The Department does not, for the most part, have independent information enabling it to assess whether the specific accounts of incidents set forth in the Americas Watch Report are factually accurate, and no effort is made here to systematically analyze the reports of incidents found in the document. Many of the incidents cited are based on the unconfirmed reporting of individuals whose credibility may be open to question, or are described in such general or conclusory terms that it is impossible from the Americas Watch account to reach valid conclusions as to whether the standards set forth by Americas Watch have been violated.

While we are unable to independently confirm the accuracy of the events recounted in any of the incidents described by Americas Watch, information available to the Department suggests that in some cases reports of abuses by the anti-Sandinistas have been exaggerated or fabricated. We believe that the account of the death of Dr. Grosjean is incorrect, for example, and that he was in fact killed unintentionally when caught in a crossfire. Similarly, we have reliable information that the alleged killing of the wounded in the incident near Telpaneca early last December is not correctly reported, and that the wounded were withdrawn safely following a straightforward military engagement.

The Report states that the information it has gathered as to Sandinista violations "is much more likely to be comprehensive" than information collected on anti-Sandinista abuses, and states that few Sandinista abuses have occurred subsequent to 1982. The Department does not believe this conclusion is accurate. The Report does not, for example, discuss the recent widely-reported massive relocations of populations in the northern departments, which are much larger than the earlier and continuing relocations of Miskitos condemned in the Report, and reportedly also have involved destruction of housing and other personal property. While describing allegations of abuses by anti-Sandinistas in Honduras, the Report does not look into incidents, such as the killing of American journalists by unannounced Sandinista mines laid on Honduran border roads, which bear on the military conduct of the Sandinista forces in the internal conflict but did not take place within the national territory. Similarly, it reflects no awareness of the abuses committed by the Sandinista-trained and -supported FMLN in El Salvador. The Report reflects no effort by Americas Watch to interview any of the thousands of Nicaraguans who have fled to Costa Rica and Honduras to escape Sandinista repression, or to investigate the charges of violations of the laws of war leveled by those refugees.

A careful reading of the incidents described in the Report demonstrates the great difficulty of drawing conclusions as to whether or not there has been a violation of applicable legal norms in a particular incident and how widespread abusive practices by both sides have been. The Report flatly states that the actions attributed to members of the anti-Sandinista forces constitute a "systematic" and deliberate policy of violating the laws of war. This conclusion is not, however, substantiated by the Report.

The Report also asserts that the United States has solicited violations of the law of war and "has taken upon itself a significant measure of responsibility" for the violations that have occurred. U.S. policy is entirely opposed to such violations, and the Department rejects the assertion that the United States bears the responsibility ascribed to it by Americas Watch. Moreover, the leadership of the anti-Sandinista groups on which the Report concentrates its attention has made clear its opposition to conduct of the sort described in the Report.

The anti-Sandinista forces grew up in resistance to the oppressive practices and policies of the Sandinista regime. Those practices and policies -- which were expressly excluded from the scope of this report -- are laid out in detail in numerous reports by the U.S. Government, the OAS and such groups as Americas Watch itself, and demonstrate to the impartial reader the powerful motivations which have led to the development of the armed opposition to the Sandinistas. The commitment and sacrifices of the over 15,000 members of those groups cannot be disregarded simply by assertions that these groups are the creation of the United States, or that they are dominated by or made up of former members of the Somoza National Guard.

The Department shares the belief expressed by Americas Watch that it is important to analyze the conflict in Nicaragua in a balanced manner, and to identify and act to correct cases of human rights abuses. While we consider the Americas Watch Report to be a contribution in this regard, our review suggests that it should be read with caution, that it suffers from a lack of balance, and that at least some of its conclusions are subject to serious question.

COMMENTS ON REPORT

Secretary SHULTZ. I would like to make three comments about it first. The Sandinista Government has an almost unblemished record of trying to mislead us about what is going on in Nicaragua. Second, the scope and nature of the information that you summarized is not in accord with the factual base that we have. I don't say that in saying that there aren't some problems, but to the extent there are problems of that sort, it doesn't represent the policy of the people whose dissent against the Sandinista Government we are supporting.

And third, it is always striking to me how, when there is a sense here or in Nicaragua that we are coming up to some sort of a vote or moment of decision that all sorts of stuff starts appearing, and you wonder how that happens all the time.

MILITARY SITUATION IN EL SALVADOR

Senator HATFIELD. I appreciate your summary observations. One final question. Mr. Secretary, do you feel that a military victory is possible in El Salvador?

Secretary SHULTZ. I firmly believe that the guerillas, with whatever help they get from the Soviet Union, Cuba, and Nicaragua will not be able to dislodge the democratic government of El Salvador. In fact, I think the tide is moving very strongly in the other direction and will continue to do so as long as the Government of El Salvador, democratically elected, fighting for law and order in its country against an insurgency supplied from outside, as long as that government continues to get the security and support that we have given it in the last 6 or 8 months, it makes a big difference.

Now, whether the El Salvador Army in the end can stamp out the guerillas, I don't know. I suppose it depends in part on how strongly the Soviet, Cuban, Nicaraguan flow of support continues and our ability to stop that. But I would hope that the Government of El Salvador would be successful in restoring law and order generally to that country.

In the end, however, law and order in a country has to emerge out of the consent of the government, and I think the effort being made toward the rule of law, obvious emergence of democratic institutions, and if we can be successful in the security effort, then there is a strong prospect of renewed economic development that all of these things tend to lend a government support, and in the end tend to defeat those who are trying to disrupt these goals by their own violent activities.

RESOLUTION OF PROBLEM

Senator HATFIELD. Mr. Secretary, is the ultimate resolution of this problem going to be political or military?

Secretary SHULTZ. There will be no political resolution unless you square up to the military implications of the supply from outside of those who by violence are trying to disrupt and overthrow the democratically elected government of El Salvador.

It is not a question of you choose this or you choose that. If you are in a country that is being assaulted, as the Government of El Salvador historically has been and is today, you have to be prepared to put your military in the field and fight it out and be successful at it. There is nothing wrong with success, and on the basis of that, one can hope that political stability will come about.

Senator HATFIELD. Mr. Secretary, I hope we are communicating to the El Salvadoran Government that the Congress is really—and I say this, I think, without contradiction—diligently pursuing human rights objectives—and we have written restrictive language in many of the bills to demonstrate that. We look as well to every effort to solve this thing politically rather than looking for "a military victory as a military solution," because I, frankly, don't think it is ultimately going to be solved by a military action. Do you?

Secretary SHULTZ. It is not going to be solved without it. That is the other side of the coin that you have to keep very much in your mind and to say that what we should do is simply work at human rights and economic development, and so on and not worry too much about the El Salvadoran Army, I think, is a counsel of defeat.

They have to have the strength to restore and maintain law and order in their country, and they are being assaulted from the outside, and we have to stand with them unequivocally.

Senator HATFIELD. I thank you, Mr. Secretary. I didn't realize the red light was on. I would only say that I would draw a distinction between a military party and maintaining an environment and a situation for the purpose of a political resolution, since the military battlefield will never solve the problem in and of itself? Do you agree?

Secretary SHULTZ. Not in and of itself because the deep problems of the region are problems of social and political organization and economic development, but they are also now a problem of an outside force that means the region is no good as we define good, and we have to stand up to that fact.

Senator HATFIELD. Thank you, Mr. Chairman.

NICARAGUAN SUPPORT FOR REBELS IN EL SALVADOR

Senator KASTEN. Thank you, Senator. Before we turn to the Senator from Louisiana for questions, Mr. Secretary, I have to leave in order to go to another hearing. I am going to ask Senator Specter to chair this hearing to the conclusion. I thank you for your testimony here today and also look forward to working with you again this year to fashion a balanced foreign aid bill. Senator Johnston?

Senator JOHNSTON. Thank you, Mr. Chairman. Mr. Secretary, when I was in Central America last spring, I was on Tiger Island listening post. It was there that I personally saw undeniable evidence of command and control coming from Nicaragua to the rebels in El Salvador. Is that command and control radio directions specifically still coming from Nicaragua to the rebels?

Secretary SHULTZ. It is my understanding, yes, sir.

POSSIBLE SURVIVORS FROM GOMAR JAVA SEA

Senator JOHNSTON. Mr. Secretary, I would like to turn to another issue which frankly, I had hoped I wouldn't have to raise in a hearing, but it is a matter of great importance to us, and I thought we could do it at the staff level, but it involves the Gomar Java Sea which is the name of the ship that went down on October 25, 1983, off Vietnam. Eighty-one members of that crew were missing. Thirty-seven were Americans and five were from the New Orleans area, which is my particular area of interest.

After the ship went down, Mr. Secretary, two 30-foot life boats were launched with a 30-day supply of food. No debris was found, even though the currents would indicate that it would have come ashore north of Da Nang in Vietnam. A British helicopter 3 days later heard a radio intercept giving the Java Sea's identification numbers, location 14 nautical miles from Vietnam.

The Chairman of the U.S. Coast Guard Marine Board of Investigations said it was, "very possible," that members of the crew had survived. There were news reports perhaps less credible than this other evidence, but nevertheless news reports carried on the networks indicating that six Americans were being held in prison, and refugee reports of that kind of evidence.

We have urged the State Department to raise these matters with Vietnam. The reply we get when we are able to get a reply, and frankly we are having trouble getting phone calls returned, and I want to go into that a little bit in a moment, the question of unresponsiveness of your team there, but they say there is no credible evidence. They refused to raise the question when our delegation went over February 6 through 9 with the POW–MIA question.

Now there is an American delegation going over this spring, and I have looked at the evidence, and it appears to me to be credible, and I cannot understand why the State Department will not raise that question. I know that, for example, about one refugee they said, he had no credible evidence because he refused to take a polygraph test. I know refugees maybe are not reliable. But when a United States Senator is as interested in this as I am because of 5 of my constituents, we ought to be able after repeated requests to get the matter raised. Frankly, I don't believe we can get it raised unless you personally tell somebody, by gosh, raise this question when it comes up.

So I would like specifically and personally to ask you to raise the question.

Secretary SHULTZ. Yes, sir.

STATE DEPARTMENT RESPONSES TO CONGRESSIONAL INQUIRIES

Senator JOHNSTON. Thank you. While I am on the subject, let me tell you my staff tells me it is very difficult dealing with State, that literally we don't get phone calls returned. I have a whole list here which I won't bother to tell you about, horror tales about a constituent's son in Mexico. We can get no help in getting the body out. A Congressman has to go down and see personally the Mexican Ambassador before we get any help out of State. I could go through the list, and it is not necessary to do that except to say that it has reached the point where it is a matter of real concern, and I would hope that you would shake the matter up down there. We haven't been asking for anything unreasonable, and I can assure you those on my staff who have made the calls haven't had this trouble before with other agencies. It just shouldn't be allowed to continue.

Secretary Shultz. Senator, if you would give me your list of unanswered calls or whatever else it may be so that I have explicit times, people who were unresponsive to you, I can assure you that they will hear from me, and if they don't want to respond to Senators, as far as I am concerned, they can find another job, difficult as it may be to fire people in the government.

Senator Johnston. Thank you, Mr. Secretary.

Secretary Shultz. At the same time, I would have to say in defense of my department, I believe that my impression is we are fully responsive. We try to be. Certainly that is our policy. And I might say that we now have a person nominated by the President to be Assistant Secretary for Congressional Affairs, Mr. Ball.

Senator Johnston. We know Will Ball, and we think he will be topnotch.

Secretary Shultz. He will be coming up for confirmation and the sooner he gets confirmed, the better I will like it, and you will find he will take over this with great strength.

Senator Johnston. Will Ball is well and favorably known around these parts, and I think he will be very good. I kept hearing these complaints in the office over and over again. You handle it; tell them we are interested; and it has gone on so long that they say you have got to go raise that. I had to come down out of Budget. My staff said, "Go down and see the Secretary; tell him about this."

Secretary Shultz. You give me chapter and verse, believe me, I will raise hell about it.

Senator Johnston. I will get it over to you.

AIR MICRONESIA

One final question, and that is the question of Air Micronesia. I had an interest in Air Micronesia since I used to be the chairman of the Subcommittee on Territories. Air Micronesia at that time was flying the routes out to Micronesia which, as you know, is an area the size of the United States spread over all those little islands out in the Pacific. They flew that route when it wasn't economically feasible to do so thinking that when the route came in to Japan, they would have first call on it.

Now the routes are ready to come into Japan but Japan doesn't want to give them landing rights. I know that is one of the items you were going to discuss with the Foreign Minister from Japan, and I would hope that you would raise that matter. They want to get landing rights in the United States for Japan Air Lines. It will be a very appropriate tradeoff to request they they give Air Mic—I think it is now Continental, which is merged with Air Mic—to let them land in Japan. Thank you, Mr. Secretary.

Senator SPECTER [presiding]. Mr. Secretary, staff informs me that had Senator Kasten been here, he would have urged the Department of State to respond promptly to requests of the subcommittee, and I would add personally I made many requests and the State Department has made good responses. Senator D'Amato?

INVESTIGATION OF JOSEF MENGELE

Senator D'AMATO. Thank you, Mr. Chairman. Mr. Secretary, last week Senator Specter and I sent a letter to you and the State Department in regard to Josef Mengele. As you know, former Attorney General Smith authorized an investigation by the Justice Department, the Office of OSI in particular, into the matter. It is my sense, and one shared by Senator Specter, unless there is a coordinated effort that that investigation will indeed be very difficult, will literally be as difficult as looking for a pin in the proverbial haystack. Consequently, if it doesn't take on a coordinated effort with all of the agencies, including the State Department, involved and actively sending instructions to Ambassadors to South America and Europe making inquiries about Mengele and any of his past actions, where he may or may not be at the present time, then it becomes quite difficult for the Justice Department in and of itself to undertake this task.

I would ask if you would respond to our letter and, also, if you would not send instructions pursuant to what I believe is a full-faced and good effort that the Justice Department seeks in pursuing this investigation, because in and of themselves, I think it becomes very difficult. Coordinated with the State Department, letting the world community know we are serious in pursuit of this, I think it takes on very real significance and meaning. So you will then pursue this?

Secretary SHULTZ. Yes, indeed.

Senator D'AMATO. Thank you very much, Mr. Secretary. Thank you, Mr. Chairman.

Senator SPECTER. Thank you, Senator D'Amato. By way of a brief supplement to what Senator D'Amato said about the Mengele matter, Mr. Secretary, I note in our foreign aid budget, there is some assistance for Paraguay, a key point in the pursuit of Mengele has involved actions in Paraguay with documents by the CIA indicating that at one point, Mengele lived in Paraguay and was reportedly under the protection of the President of Paraguay. There has been really a surprising lack of response in hearings held before the Judiciary Subcommittee when a three-star general in Army Intelligence was confronted with a letter which had been known to the Army, although the letter was very old, going back to April 1947, and the general was asked what action was taken, he said none because the matter had to be referred to the

Chief of Staff and the Secretary of the Army, which brought surprise to those of us on the panel in terms of that kind of a ranking officer.

It would suggest to me that there has not been the kind of pursuit by the government on Mengele with sort of an attitude sweeping it under the rug or so many years have passed, and I am delighted to hear your response today and you have had the letter from Senator D'Amato and me for a few days, dated February 26.

I am pleased with your concern and expressed determination to handle this. So I thank you.

Secretary Shultz, I would like to pursue a few other lines of questioning, and then I will observe your schedule. If you stay around long enough, you can become chairman in the course of a short hearing.

Secretary SHULTZ. You can, but not me.

Senator SPECTER. Well, that's true. No matter how long you stay around, you can't become Secretary of State.

EGYPT'S AMBASSADOR TO ISRAEL

Mr. Secretary, on the foreign aid budget, we are looking at many facets, and one of the facets which we are looking at is Egypt. President Mubarak is scheduled to be in town next week, and he has sent his Defense Minister in advance to talk to a number of us. We had informal meetings in the Foreign Relations room. During the course of those meetings, a number of Senators expressed concern about the lack of initiative by President Mubarak in furtherance of the Camp David Accords, and I for one expressed concern about Egypt's failure to send back the Egyptian Ambassador to Israel, notwithstanding the promise to do so. It so happened I was visiting and talked to President Mubarak in Egypt back on June 2 of 1983, and I think every visiting Senator raised the question. He chose that particular morning in the presence of Ambassador Atherton to commit sending back the ambassador in 1 to 2 weeks.

At that time, he asked me for some help. I wrote to him and provided assistance on flexibility of the economic line. As lawyers want to do, we confirmed his commitment. The ambassador hasn't been sent back. He came to the United States in September 1983. A number of us again pressed him and he pleaded change in circumstances. I visited there in 1984 in August and again he says change of circumstances. I said to the Foreign Minister, speaking for myself, which is all I can do, that I would oppose significant aid to Egypt unless Egypt took a leading role in trying to promote peace in the Mideast, something substantive, something that was symbolic. The return of the ambassador was one item.

I would just urge you—I doubt you need much urging on this subject or any urging—but I do bring that to your attention because there is concern about the very substantial aid we give Egypt, and whether we are getting our money's worth. We make foreign aid for our own national self-interest and that pursuit, I think, is something that has to be maintained.

SAUDI ARABIA'S ROLE IN THE PEACE PROCESS

I do want to ask you specifically about Saudi Arabia, though, in a somewhat similar context. And that is the issue about the delivery of the AWAC's, and this ties into the arms sales in the Mideast and many of us are concerned about the potential imbalance with Israel there.

When the President spoke to a group of Republican Senators in early October 1981 urging support for the sale, he made it plain that the major reason, I think it is fair to say—I will give my interpretation—was to draw Saudi Arabia into the Mideast peace process. And speaking for myself, again, I do not believe the Saudis have really done what they should have done.

I made that statement directly to the Minister of Defense when I visited Saudi Arabia last August and the facts, and I have gotten these confirmed before I presented them to you this morning, but the facts are that as represented to me and as best I can confirm them, that the Saudis have aided the PLO; they have campaigned against the agreement to cooperate militarily with the United States; the Saudis have subsidized Soviet arms purchases by Syria and Iraq, and the Saudis have canceled aid to Egypt because of Egypt's initiatives on the Camp David Accords.

The question I have is, at what point will we say to the Saudis, you don't deserve the delivery of the sale of the AWAC's because President Reagan did say that the plug could be pulled for delivery, which was scheduled for late 1985 and 1986? At what point do we say to the Saudis, we are going to pull the plug on that deal because you haven't been sufficiently helpful on the peace process there?

Secretary SHULTZ. I believe that Saudi Arabia wishes to see stability and peace in the region, and that they have done a number of things, some we think have not been particularly helpful, and many we think have been helpful. I think their objective is rather clear.

When it comes time for the AWAC sale, I believe there is a certification or statement that needs to be made in connection with this subject, and there will be one and, of course, it will be considered at the time but I think it is fair to say with respect to many elements in the picture, including the recent moves being made in Amman and elsewhere, the Saudi Arabian influence is basically positive.

Senator SPECTER. What kind of certification is called for, Mr. Secretary?

Secretary SHULTZ. I believe that there is a statement that must be made.

TRADE SANCTIONS AGAINST LIBYA

Senator SPECTER. Mr. Secretary, on the subject of terrorism, this is a vast subject, and I am going only to touch one phase of it. You and I had a number of discussions about it in the past, but I would like to pursue one line.

Qadhafi has this week been reported or stated that he is prepared to carry out Libya's policy of assassination worldwide. There is a real issue here about his conduct requiring some very, very forceful response in line with the conduct of so many of the terrorists calling for some forceful response, but that is a question really for another day.

You and I had occasion to discuss informally the issue of our trade with Libya, and I have gotten the updated figures and confirmed them again this morning from the Department of Commerce about our trade with Libya, and in 1983, we had $190.9 million in exports and $900,000 imports. In 1984, $200 million in exports; $10 million in imports. And in the context of the murder of an English policewoman last year and Libya's continuing course, why do we continue to trade with them?

Secretary SHULTZ. From the government standpoint, we do everything we can to discourage and stop trade and discourage Americans from being there. We are not in a position to prohibit people from going there, nor can we literally stop all trade.

Senator SPECTER. You do not have the authority under existing law to stop all trade?

Secretary SHULTZ. No.

Senator SPECTER. Would you support legislation? I am prepared to introduce it promptly, giving you congressional authorization. It will have to be approved by the President——

Secretary SHULTZ [interposing]. As far as I am concerned, we are better off if we don't have any trade with Libya under the circumstances, as you described them, and I don't quarrel with them at all. I agree with you. I don't say that thinking that by cutting off our trade that puts some special crimp on their capacities because other countries do trade with them, and it is replaceable.

So the business of the sanction will not work in the sense of putting an economic squeeze on Libya, but I think that from our standpoint, we just shouldn't want to deal with them.

Senator SPECTER. I am glad to hear your view on that and your support for such legislation. As I say, I will introduce it promptly.

Secretary SHULTZ. I don't want to give a blanket endorsement to some legislation that my lawyers haven't read, but subject to that qualification, I will be delighted to look at it.

Senator SPECTER. I have heard an endorsement of a bill to stop U.S. trade with Libya; do I hear correctly?

Secretary SHULTZ. Yes, sir.

Senator SPECTER. Wonderful. The second part of that subject, I can't understand why Great Britain deals with Libya, and I don't expect you to answer that question, but I would hope that we would take leadership with other nations to boycott Libya economically. I think we could make a real change in Qadhafi's policies if we at least went that far.

Would you be willing to undertake an initiative to encourage Great Britain and other Western democracies not to trade with Libya?

Secretary SHULTZ. Well, we have tried, but we haven't succeeded because their economic stakes and numbers of people, so forth, persuade them that they shouldn't do it.

Senator SPECTER. Like you say, on so many of the other lines, it is something we ought to keep trying.

FOREIGN DRUG TRADE

Two more questions, Mr. Secretary, and I appreciate your responses here.

On the issue of foreign drug trade, the law of this country is that we will not give foreign aid to nations which have an increase in narcotics production. The facts show that there are seven nations which have increased their narcotics production which receive aid from the United States—Mexico, Peru, Thailand, Jamaica, Bolivia, and Belize. Why don't we simply stop foreign aid to those countries?

Secretary SHULTZ. Well, you are the lawyer, and I'm not, so I hesitate to say anything about what the law says to you, but I don't have the understanding that there is an automatic cutoff of aid if there is an increase in the production of narcotics on an automatic basis. I think it is a question of whether or not the country involved is properly making an effort to curtail the production.

We have to make a judgment about that. It is not, in other words—anyway, if you say that is the law, then there should be suspension all over the place, but I doubt the law calls for automatic suspension of it.

Senator SPECTER. It does not call for automatic suspension. It requires the President to make a judgment that those countries have made inadequate progress in reducing drug production, but in the context of the increase in drug crops and the context of the enormous drug problem in this country, it is causing us so much crime, so much expense, so much travail and pain where you have seven nations which are producing more by way of drug crops, it is hard to say any objective standard saying they have made progress.

This, it seems to me, Mr. Secretary, is an occasion where it comes as close to anything as black and white. You answered a great many questions here today, and I don't know we have had any area which is really black and white. Well, we have had some. I don't say that. This is a clear-cut area, it seems to me. And if we cut——

Secretary SHULTZ [interposing]. I don't think so. If you simply disengage from all those countries, then the question is, would that have the effect of more or less drug production in those countries? If you are dealing with governments that you feel, all things considered, are working constructively with you, then I think you have something going for you, and you shouldn't throw it away.

Beyond that, while I don't want to diminish one with the importance of working at the problem of stopping production and processing and movement of drugs, I think the fundamental problem is the use of drugs and the demand for drugs here, and we must concentrate on that heavily as the primary source of the problem.

DRUG USE AND SUPPLY

Senator SPECTER. Mr. Secretary, I think we have to concentrate on the use, but we also have to concentrate on the supply. Let me just make a suggestion. Give it a try; pick out two countries. I would nominate

Colombia and Burma. Cut off foreign aid. See what the response is; get tough about it.

Secretary SHULTZ. I think in the case of Colombia, we are working very closely and constructively with that government, and that government has shown very considerable courage in some recent extradition cases, and we and they have been standing up to the threats involved.

I think you know that our foreign service officers throughout the world and our ambassadors, many of them are in constant threat of assassination, and so are authorities in those countries, and I think we can be proud of what we are doing. And in the case of Colombia, one you want to walk away from, I don't think that is constructive at all. They are trying, and we are working with them constantly.

SOVIET JEWRY

Senator SPECTER. I amend my comments, striking Colombia and make it Peru. You pick them. A get tough policy, Mr. Secretary, a final question I have for you is the question of Soviet Jewry. I thank you for the efforts which you have made, and I know that it is high on your agenda and is a subject you take up with Soviet officials and Foreign Minister Gromyko, Ambassador Dobrynin and others. Do you think that there is a reasonable likelihood of an increase of Soviet immigration, Jewish immigration from the Soviet Union in light of the thawing in relations between the United States and the Soviet Union?

There had been many more Jews permitted to leave the Soviet Union back pre-Afghanistan, pre-1979. It is only a trickle now. Is there any reason for optimism on this subject?

Secretary SHULTZ. Only the sort of observation that you cited. But that doesn't mean we should not continue to work at it.

SUBMITTED QUESTIONS

Senator SPECTER. Thank you, Mr. Secretary. Before we conclude, I will announce that questions submitted to you for the record will be inserted at this point.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent ot the hearing:]

QUESTIONS SUBMITTED BY SENATOR KASTEN

AWACS COMMITMENTS

Senator Kasten: Mr. Secretary, during consideration of the "AWACS" sale early in the first Reagan Administration, certain commitments and other promises were made by the Administration and the Saudis when Congress approved that sale. I wonder if you would review for the Committee those commitments and the status of the fulfillment of them?

Secretary Shultz: In October 1981, President Reagan sent a letter to Senator Baker (see Congressional Record, October 28, 1981, page S12349) promising that transfer of the AWACS to Saudi Arabia will take place only after the Congress has received in writing a Presidential certification that certain conditions have been met. These include: security of technology, access to information, control over third-country participation, AWACS flight operations, command structure, and regional peace and security.

The USG and the Saudi Government are currently actively engaged in formulating mechanisms that will implement these commitments. We expect to reach agreement on all these points well before the delivery of the first AWACS airplane in June 1986. We will be prepared to brief the Congressional leadership.

CONGRESSIONAL APPROVAL OF ARMS SALES

Senator Kasten: Since the Supreme Court decision in the Chadha case has eliminated Congress' ability to influence these types of decisions directly, absent the passage of special legislation, many of us up here remain concerned that we should put something else in place so that we can deal with these arms sale proposals. How do you think the legislative branch should proceed on this issue so that if there is a disagreement on such sales, we have a meaningful input into the decision-making process?

What would you think of a proposal which required that except for certain countries--say "NATO" countries, Japan, Australia, Israel and perhaps a few others--that all arms sales must be approved affirmatively by Congress?

Secretary Shultz: We think the current process is working quite well and there is really no need for a change. While we recognize and respect Congressional interest in the sale of weapons to other nations, there are already laws on the books requiring congressional notification for major arms sales, and as part of this process, we consult closely with Congress and receive input from various members and staffs. There has not been any major arms transfer or sale which went forward contrary to the will of Congress. A recent example was our proposed sale of Stingers to Jordan which we withdrew after Congressional consultations.

So we would oppose changing something that works well. We think the current process of notification and consultation is effective and is sensitive to the will and desires of the Congress. We also oppose instituting a procedure which we believe would be unworkable and hamstrings the President's ability to effectively use arms sales as an instrument of foreign policy. A procedure requiring Congressional approval of all arms sales except to NATO countries, Australia, Israel, etc., is unnecessary and undesirable because it would slow down and needlessly complicate what is now a successful process of cooperation between the two Branches.

CONTADORA PROCESS

Senator Kasten: Where do we stand now in the Contadora process? Has there been any movement, any progress?

Secretary Shultz: The Contadora discussions will resume on April 11. There are differences between the September 7 draft and the Tegucigalpa draft that have to be reconciled. I am hopeful for progress but do not expect any immediate breakthroughs. The question is whether the Nicaraguans will negotiate seriously. For our own part, we continue to support a comprehensive and fully verifiable agreement that meets the 21 points of the 1983 Document of Objectives.

Senator Kasten: What can the United States do to help the Contadora process toward solutions in Central America?

Secretary Shultz: We should stress our support for a regional solution and continue our present mix of economic, political, diplomatic, and military efforts. This includes the Administration's full program. We can also work through the Manzanillo talks but only to support the Contadora process and not as a basis for a bilateral agreement.

RMTC NEGOTIATIONS

Senator Kasten: I know that the State and Defense Departments have been working hard to find a solution to the impasse over the Regional Military Training Center in Honduras. I believe you have only about a week left to find a solution.

Can you bring us up to date on those negotiations?

Secretary Shultz: Our goal had been to build a permanent Regional Military Training Center (RMTC) for the primary purpose of training Salvadorans but accessible to all friendly countries of the region. During the past several months, we engaged the Hondurans in extensive discussions on the future of the RMTC. Those discussions did not resolve all the issues.

We reached preliminary agreement on a set of General Principles to govern the operation of the Center. We were unable, however, to obtain Honduras' agreement on terms for continued Salvadoran training, and there was a lack of progress toward compliance with Congressionally mandated conditions regarding the settlement by the Honduran Government of property and business claims by an American citizen that are associated with the RMTC's establishment and operation.

Since FY 84 supplemental funds for the RMTC could not be obligated by the March 31, 1985 obligation deadline, it was necessary to reprogram the funds so they might be used for training friendly Central American forces. We have proposed an allocation of this $18.5 million as follows: $10 million for El Salvador; $5 million for Honduras; $2 million for Costa Rica; and $1.5 million for RMTC closing costs.

The reprogramming will allow us to move ahead with the Central American training programs, even if they cannot take place at the RMTC.

QUESTIONS SUBMITTED BY SENATOR HATFIELD

CENTRAL AMERICA - ECONOMIC ASSISTANCE

Senator Hatfield: The Kissinger Commission emphasized the importance of promoting security in Central America through economic stabilization and growth. Your statement also indicates that the Commission emphasizes the use of "economic aid, coupled with policy reform, to eliminate the root causes of poverty and political unrest." However, many of the past policy reforms promoted by AID in the Congressional Presentation Documents have not been accomplished. According to a draft GAO Report, now at the Department of State for review and comment, these requirements were often waived by AID in consultation with the Department of State. Mr. Secretary, this doesn't give me great confidence that macroeconomic adjustment will be vigorously pursued.

What assurances can you give me that conditionality won't be waived in El Salvador and Honduras once again?

Secretary Shultz: We are very much concerned with implementing assistance programs that will promote long-term and sustained economic growth. Our effort is to assure a balance of economic, political and security objectives that advance overall US interests. There is a consensus within the Administration on our broad objectives. Differences on tactics do emerge among agencies involved in policy decisions as to precisely what conditions should be attached at any given stage in the obligation and/or disbursement process. Such differences are to be expected. Nevertheless, the Administration gives high priority to macroeconomic reform.

The task we face is to fashion an assistance program which includes conditionality which can maximize the chances for achieving desired economic results without unacceptable damage to other objectives. We must provide a basis for cooperation on military and security requirements which can be consonant with longer-range economic objectives.

This is a dynamic and not a static process, requiring an ongoing dialogue with the governments involved. Conditions which we deem feasible at the outset may be harder for host governments to achieve than we would have anticipated. Similarly, opportunities for progress can and do emerge that we should take advantage of.

The task is to define, on a mutual basis, those policy reform goals which are achievable and to keep under constant review the achievement of step-by-step progress. Progress is being made toward reform in each of the countries. For example, in El Salvador use of the parallel market is currently authorized for about 42% of imports and exports, and Honduras has taken measures to reduce the fiscal deficit and improve export competitiveness.

It would serve no purpose to set unrealistically strict conditions with which host governments could not comply. Were we to do so we would run the risk of either causing severe internal disruption or of ultimately undermining our own credibility by waiving unrealistically strict conditions when it is seen that they cannot be achieved.

Senator Hatfield: In addition, it has long been contended by the Department of State that ESF is economic assistance and not security assistance.

In light of the waivers of conditionality for both El Salvador and Honduras, how can it be contended that this is solely economic assistance, when waivers are made for security reasons?

Secretary Shultz: Section 531 of the Foreign Assistance Act provides Congressional authorization to the President "to furnish assistance . . . to promote economic or political stability" in countries where "special economic, political, or security conditions" have a bearing on the national interests of the US.

ESF assistance is thereby defined as economic assistance within a security framework. If, in the face of a severe security situation, it is impractical to impose economic conditions as stringent as we might wish, this does not change the nature of the assistance program. Appropriate economic polices are crucial to economic stabilization and recovery. Accordingly, we have insisted that discussion of and agreement on economic policy be a regular part of our negotiations with the Governments of El Salvador and Honduras on balance of payments assistance. The record of those negotiations is full of examples showing that we did not request authorization of balance of payments assistance until there was agreement on policy measures. We deferred disbursements until there was evidence of satisfactory performance on policy adjustments, and in the case of Honduras, suspended ESF disbursements in late 1983.

At the same time, there are other high-priority US objectives in these two countries which include security, social and economic stability, a political environment in which democratic institutions and processes may be progressively strengthened, and improved performance on human rights. The Kissinger Commission specifically cited these objectives and the close interaction among them.

At any given time, there are trade-offs among these objectives. What would in isolation appear to be an ideal economic reform agenda is frequently not totally compatible with political, security, and social objectives--nor the decisions of the elected sovereign governments in El Salvador and Honduras. Because of this need to foster multiple objectives, we frequently agree to policy adjustments which are less ambitious than our negotiating agenda and sometimes agree to disbursements despite host country problems in fully complying with one or more conditions. These judgments are carefully made on the basis of the mix of factors at play at any given time.

Our longer-term objective remains an achievable set of economic policies which will provide the framework for sustainable, equitable economic growth. Our negotiating goals are frequently set higher than our realistic expectations for agreement. Yet we believe that goals should pose real challenges; the key is that the goals be recognized and accepted by the recipient government and that we get steady demonstrable progress towards them. Our policy goals usually entail profound economic shifts with difficult and often unpredictable short-term social impacts so that it is not unreasonable that they will not move according to a rigid, pre-specified timetable. Nevertheless, the record shows that substantial adjustments and real progress have been achieved as a result of these negotiations.

Senator Hatfield: You indicate in your statement that the Latin American countries have been working with the international financial community to restructure their debts and ensure continued orderly debt servicing.

Does this include El Salvador and Honduras? Is the IMF included among the international financial institutions that El Salvador and Honduras are working with?

Secretary Shultz: Yes, El Salvador and Honduras are included among the countries working to assure orderly debt servicing. Honduras has also reached a rescheduling agreement with private banks. El Salvador's debt service ratio is actually low. Both countries have continued to hold discussions with the IMF, although negotiations have not as yet been as productive as we might have wished.

Senator Hatfield: It is my understanding that El Salvador's last arrangement with the IMF expired in July 1983 and that negotiations for a new arrangement haven't been held since. Similarly, the IMF agreement with Honduras was suspended in 1983 after the government refused to undertake certain reforms and that there have been no further negotiations.

Do you expect there will be an IMF agreement in both those countries? If yes, when? Given the past responsiveness to US requests for changing policies, as well as unresponsiveness to IMF requests, what basis should I believe present assurances will be any different than the past?

Secretary Shultz: Both the countries could reach agreement with the IMF, though in Honduras the prognosis is that agreement will not be feasible before the November 1985 presidential elections. Discussions on a new standby with El Salvador are expected later this year.

The US is using ESF assistance within the context of the joint working group with the Government of Honduras to identify measures to reduce the balance of payments gap and fiscal deficit and in general help to improve the competitiveness of Honduran exports. We expect that commitment to these measures will be conducive to favorable discussions with the IMF in the future.

The government of El Salvador has made the following significant policy adjustments conducive to economic stabilization and recovery:

Balance of Payments: Movement of $16 million of 1983/84 crop cotton exports to the parallel market and $15 million plus 50% of any increase over the previous year's exports from the 1984/85 crop; movement of 80% of shrimp export proceeds through the parallel market; and lifting of all restrictions on industrial exports to outside the Central American Common Market (CACM). Corresponding amounts were shifted on the import side. More significantly, actions by the GOES Monetary Board since the time of the GAO field visit have greatly expanded the volume of trade at parallel market rates. As of March 1985, 42% (by value) of all imports and exports are being traded at the parallel rate.

Fiscal: Electric power rates were increased by 40% during the first half of 1984; the increase in salaries of its lowest paid public servants was held to 10%, and all vacant government positions were abolished. Partial success was achieved in the other goals. GOES deposits allowed partial payment to agrarian reform bondholders; some improvement in credit availability occurred; and counterpart funding was arranged for AID and other donor projects.

Honduras has taken substantial steps to hold down its budget deficit, and has indicated willingness to divest public enterprises and strengthen its monetary policy measures.

The Government of Honduras has:

-- introduced a fiscal package, with Assembly approval, to increase government revenues and reduce expenditures;

-- passed an Export Incentives Law to stimulate growth of Honduran exports;

-- imposed a moratorium on central government guarantees of private sector debt and a limitation on additional borrowing by public sector enterprises;

-- implemented tax administration reforms to increase collections;

-- recently agreed to several structural adjustments including replacement of government sight bonds with fixed-maturity issues; replacement of current specific tariffs with ad valorem rates; establishing the legal basis for eventual sale of pubic enterprises; and creations of a special payments mechanism for Honduran exports within Central America.

More could be done in each case. However, considering the complex balance of these issues in the context of major elections in each country, the Administration's record in pursuing sound macroeconomic policies in each of these countries is credible and holds up under scrutiny. The GAO report notes the complexity of these issues and essentially confirms our approach.

Senator Hatfield: Given the large amounts of balance-of-payments assistance provided by AID, has the United States replaced the International Monetary Fund (IMF) as the "lender of last resort" for Central America?

Without IMF arrangements, what will be the future costs to the United States to keep the Central American countries, particularly Honduras, solvent?

Secretary Shultz: We have no intention of allowing the US to be or to become the lender of last resort in Central America. If countries do not have IMF programs, they forgo IMF resources and are not able to have debt rescheduling considered by Paris Club creditors. The absence of IMF programs also tends to decrease private sector financial flows and foreign direct investment. The US government does not intend to substitute for IMF financing but will continue to work in concert with the IMF to promote structural adjustment, remove barriers to trade and increase reliance on market forces in Central America.

ASSISTANCE FOR EL SALVADOR

Senator Hatfield: Is a supplemental appropriations request for FY 85 being discussed by the government of El Salvador with the United States? If such a proposal is being discussed, what levels of assistance are being requested and for what purposes? Has such a request been approved by the United States?

Secretary Shultz: The governments of the United States and El Salvador are not discussing a supplemental appropriations request for FY 85. When we submitted our budget request for FY 1986, we believed that this level of assistance would allow us to continue to progress towards the policy objectives which we support in El Salvador. I hope the Congress will approve this assistance budget for El Salvador.

HONDURAN-EL SALVADORAN RELATIONS

Senator Hatfield: What is the Department of State's assessment of the potential for border conflict between El Salvador and Honduras at the present time? What is the potential should the conflict in El Salvador subside in the next year or two? Have any studies or assessments been prepared by the Department of State on this matter? If not, why not? If yes, I would like a copy of them.

Secretary Shultz: We do not believe that there is a significant likelihood of border conflict between Honduras and El Salvador at the present time. Negotiations between the two countries continue regarding delineation of their disputed border and we hope for a peaceful resolution of the dispute. We note that an agreement between the two, signed in 1980, provides for peaceful resolution in the absence of a bilateral accord. In view of the Sandinista threat to the territorial integrity of both Honduras and El Salvador, we do not anticipate a significant rise in the potential for conflict between those two countries when the conflict in El Salvador subsides. The State Department has not prepared recently a formal assessment of this situation, although we take a continuing interest in the peaceful resolution of this and other issues between the two states.

Senator Hatfield: Is the U.S. in any way creating the potential for such conflict through the bolstering of the armed forces of both nations given the 1969 soccer war, and are any steps being taken to reduce the potential for such a conflict?

Secretary Shultz: The military equipment provided to both Honduras and El Salvador is primarily defensive in nature and meant to help counter the very real current threats that both nations face. We do not believe that military assistance received from the U.S. creates a potential for conflict. The U.S. is actively encouraging peaceful resolution of the border dispute and improved relations between the two countries.

LDC DEBT REPAYMENTS

Senator Hatfield: Economic assistance to less developed countries (LDCs) keeps increasing while debt repayments are lagging because of economic problems facing these nations. Debt rescheduling is thus being used more frequently to provide relief to countries with debt servicing problems. However, repeated debt rescheduling may not necessarily be helpful to them in the long run because such reschedulings in effect increase the debt burden over an extended period of time. This seems to put countries in a dilemma because on the one hand they seek development which can lead to improving conditions and on the other they are faced with a higher debt that can prevent them from allocating the resources or those things needed for achieving development.

What choices, other than repeated debt reschedulings, are being considered to help countries with serious economic problems give priority to taking necessary steps to improve their economic conditions? How can economically troubled countries avoid having to commit resources to service increased debt when these countries need to continue allocating resources to programs that can help improve living conditions?

Secretary Shultz: Debt reschedulings are simply one component of a larger, mutually reinforcing package of external financial flows and economic adjustment by the debtor. In addition to debt reschedulings, there are other financial tools and sources that encourage positive reforms and lead to economic growth. These include IMF loans, World Bank structural adjustment and sectoral loans and bilateral aid flows. (For our part, U.S. Economic Support Funds for Africa, Central America and the Caribbean have increased approximately 50% since 1983.) Open markets for LDC exports are equally important; U.S. economic growth has been a major boon to developing country exports.

There are three ways that debt reschedulings contribute to a country's economic health. First, reschedulings ease the debtor's concentrated short term payments burden by extending payments over more years. Second, by helping to assure creditors that they will recover their assets, reschedulings can lead to a resumption of new credit if the debtor establishes a record of meeting the rescheduled payments on time. Third, because reschedulings are contingent upon the debtor's implementation of a comprehensive economic adjustment program, they help to induce needed reforms. For all of these reasons, debtors have recognized that it is in their interest to work out repayments schedules that enable them to honor their debts.

This distinction between debt rescheduling and aid is important. Reschedulings offer a short term postponement of debtors' obligations while protecting creditors' prospects for eventual recovery. Debts are rescheduled only in instances of imminent default. In contrast, economic aid is normally designed to increase the economy's ability to sustain or increase current and future output.

LDC DEBT SERVICE AND AID

Senator Hatfield: When considering continued assistance to countries with repeated debt reschedulings, is the ability to service additional debt considered in deciding the form of aid to be provided?

Secretary Shultz: In designing an aid program for a recipient country we consider a broad array of economic variables: the balance of payments outlook (including debt service), the public sector budget, basic human needs, growth possibilities for particular sectors, food requirements, pricing policies and exchange rates. We also take other donors' activities into account.

We tailor our aid programs to individual country circumstances through both the types of assistance we provide (ESF, DA, PL-480, FMS, etc.) and the terms of that assistance (loans of various term structures versus grants). Our ability to address the entire range of economic issues is therefore influenced by resource availabilities in the various assistance programs as well as the terms we are able to offer under each program. The assistance mix is determined through the integrated budget process.

The Donor community as a group also normally takes a debtor country's debt servicing requirements into account when determining assistance levels. For example, the World Bank often organizes donors' pledging sessions to provide financial support for a specific country in connection with an IMF adjustment program.

ISRAELI FMS ASSISTANCE

Senator Hatfield: The FY 86 Congressional Presentation Document (CPD) contains a request of $1.8 billion in military assistance for Israel. Not only is the entire request to be provided under concessional rates, but it represents a $400 million increase over FY 85. What is the basis for this increase? Is it based on an increased security threat to Israel? If so, from what countries does this increased threat arise? Is the increase linked at all to the potential resumption of Middle East negotiations with Egypt and the possible inclusion of Jordan in that process?

Secretary Shultz: The United States has an iron clad commitment to Israel's qualitative military edge over its adversaries. To preserve that edge, we have requested Israel's FY 86 FMS program be increased to $1.8 billion over the FY 85 level of $1.4 billion. The USG arrived at this figure after extensive Joint Security Assistance Planning group (JSAP) consultations with Israeli defense experts last fall. The JSAP focussed on possible threats to Israel's security, its defense procurement requirements to meet that threat, and our assistance program. After this full review, the Government of Israel concurred with our $1.8 billion FY 86 request. The JSAP consultations did not consider issues relating to the potential resumption of Middle East peace negotiations with Egypt, nor the possible inclusion of Jordan in that process.

ISRAELI ECONOMY

Senator Hatfield: The FY 86 CPD is silent regarding the ESF request for Israel. Many figures are being circulated for both a FY 85 Supplemental request, as well as for FY 86. While concerned about such increases during a time of domestic belt tightening, I am principally concerned about conditionality associated with that money. Is the Department of State attaching specific conditions to these monies? If so, what specifically are those conditions and are reforms being required to reduce inflation and the subsidization of domestic goods? Will these reforms or conditions be waived if requested changes are not made?

Secretary Shultz: Both we and the Israeli Government have agreed that an Israeli request for extraordinary economic assistance should be in the context of a comprehensive economic program that has a reasonable chance of stabilizing the Israeli economy and putting it back on a sound growth footing. Without such a program, additional U.S. assistance would merely help perpetuate the fundamental imbalances in the Israeli economy and therefore not help Israel achieve its economic objectives. There are of course areas of the GOI economic policy that are of special concern to us, including the budget, fiscal and monetary policies in general, and exchange rate policy, but we have not set specific conditions. It is up to the Israeli Government to formulate its own program, but we are prepared to help the GOI devise a program that will achieve the goal of stabilization and renewed economic growth.

U.S. ASSISTANCE TO ISRAEL

Senator Hatfield: Given the fact that the Administration's request for economic assistance in FY 85 and FY 86 will be increased, does this portend the likelihood that the FY 87 request and beyond will use these levels as the base for either additional levels of assistance or maintenance of the status quo at the higher level as compared to FY 84 and the FY 85 Continuing Resolution?

Secretary Shultz: We have tried to distinguish from the outset our regular annual economic assistance for Israel, which is a reflection of our unwavering support for Israel's security and economic well-being, and any extraordinary assistance which we might provide in the context of a comprehensive GOI economic reform program. We believe the GOI also accepts this distinction. Accordingly, we support the $1.2 billion in ESF for FY 86 which Congress has proposed in recent markups--a straightening of our economic assistance from the level in the FY 85 Continuing Resolution. Any Administration request for extraordinary supplemental assistance will be made separately.

The only way to relieve pressure for ever increasing U.S. economic assistance to Israel in future years is for that country to adopt an effective economic stabilization and reform program. Without such a program Israel's foreign aid requirements will grow and its economic dependency on us will increase.

FMS TO EGYPT AND THE LIBYAN THREAT

Senator Hatfield: Since the Camp David accords, there has historically been a linkage between military and economic assistance provided to Israel and similar assistance provided to Egypt. I note in the CPD that FMS to Egypt in FY 86 will be increasing by $125 million from FY 85. Is this increase related to a particular increased threat facing Egypt? If so, from what countries and how has that threat changed in the past year?

Secretary Shultz: Egypt is having to invest a great deal of its limited foreign exchange to replace its obsolete and increasingly inoperable arms and equipment obtained from the Soviet Union before 1972. In FY 1985 we converted our military assistance to Egypt from a grant-loan mix to all-grant as a way of alleviating this drain on Egypt's foreign exchange, but we also reduced the level of our assistance to $1.175 billion from the slightly more than $1.3 billion we provided in FYs 83 and 84. It was partly to compensate for that decrease--not anticipated in Egypt's five-year military modernization plan--that Egypt's leaders requested $1.7 billion from us in FY 1986. We have requested $1.3 billion in FY 1986 to bring our aid back up to the level projected in the modernization plan. All but about $20 million of this amount would be used to make progress payments and provide essential follow-on support for equipment already ordered.

The principal reason why Libya does not attack Sudan or Egypt openly is the certainty that Egypt has the will and ability to retaliate decisively. Not only is Libya amassing a formidable arsenal of modern Soviet weapons, but Qadhafi's hostility has been demonstated repeatedly this past year. The bombing raid on Omdurman, the mining of the Red Sea, and the sending of assassination teams into Egypt all reflect the continuing threat from Libya.

EGYPT: SUPPLEMENTAL ESF ASSISTANCE

Senator Hatfield: ESF to Egypt has been retained at FY 85 levels, despite the probability of a significant increase to Israel. In light of the historical linkage in assistance between Egypt and Israel, is a supplemental increase being contemplated for Egypt in FY 85 or a budget amendment in FY 86 to bring funding for ESF to a level commensurate with that being provided to Israel? If not, what is the position of the Department of State towards such an initiative?

Secretary Shultz: Egypt has requested supplemental ESF assistance, and we have agreed to give the request serious consideration within the context of our own tight budget. However, the Administration is not prepared at this time to propose either an FY 85 supplemental or an FY 86 budget amendment to increase the ESF level for Egypt. Should the Congress initiate such a proposal, the Administration would have to review the specifics before we would be able to give any response as to whether we support or oppose.

DEVELOPMENT ASSISTANCE FOR AFRICA

Senator Hatfield: Mr. Secretary, I want to commend both Mr. Peter McPherson and yourself for your response to the famine in Africa. The U.S. has made it very clear to the world that it is willing to set aside political differences in order to address the desperate famine conditions of Africa. When all food assistance is provided in FY 85, those levels should be well over $1 billion.

This assistance represents a significant increase over the $424 million provided in FY 84 and most persons agree that a FY 86 supplemental request is likely as the famine in many countries is likely to persist. Yet, development assistance for FY 86 is scheduled to decline from FY 85 levels and to be identical to FY 84 levels. On the other hand, military assistance is scheduled for a 25% increase over FY 85.

First of all, it seems to me that in light of U.S. budget deficits and the potential for rising levels of food assistance to Africa, perhaps a wiser strategy would be to provide more development assistance to address this situation. This would result in budgetary savings, as well as address the long-term development needs of Africa. Would you agree?

Secretary Shultz: We are in a period of budget stringency and have had to make hard choices on how our aid assistance should be spent. The budget request is a complex process requiring reconciliation of competing demands from the whole world. In the case of Africa, development assistance in the FY 1986 request rose slightly over that of the previous year (from $353 million to $358 million)--and therefore the information you received about a proposed reduction is incorrect. Furthermore, you should note that our proposed Economic Support Fund assistance for Africa also increased from $424 million in FY 85 to $461 million in FY 1986. Given the existing budget constraints, therefore, Africa has done relatively well in the allocation process.

THE AFRICAN ECONOMIC POLICY REFORM PROGRAM

Senator Hatfield: The budget for FY 86 includes the Economic Policy Initiative intended to influence policies in certain African nations. $75 million would be available and apparently four or five countries would be affected. Yet, there are a total of approximately 20 countries affected by the famine at a cost of $1 billion to feed starving people in those nations. What is expected to be accomplished with so little money in the face of such a great need? Is it your view that these monies are adequate to address this situation? If not, what more can or should be done?

Secretary Shultz: The Economic Policy Initiative, which is now known as the African Economic Policy Reform Program, is designed primarily as an aid instrument to help reform-minded governments undertake economic reforms which will in the long run have a beneficial impact on productivity; it is not an appropriate program to use in meeting the immediate food needs in Africa. We have other programs for that purpose.

Although the AEPRP has a relatively small amount of money, it is designed to act as a catalyst for additional contributions from other donors and international financial institutions. In fact, the World Bank has just launched a Special Facility which has the same objectives as the AEPRP and received pledges from other donors totaling around $1 billion. We view the AEPRP and the Special Facility as mutually supportive efforts.

QUESTIONS SUBMITTED BY SENATOR SPECTER

IRAQ AND ANTI-TERRORISM CONTROLS

Senator Specter: I am concerned that the Administration appears to be wearing blinders when it comes to Iraq's involvement in international terrorism. Why is it that the Administration refuses to place Iraq on the list of nations supporting terrorism when it is equipping and training a 5,000-man PLO terrorist brigade complete with weapons, air defenses, howitzers, rocket launchers and armored vehicles including tanks?

Secretary Shultz: We strongly oppose reimposition of anti-terrorism controls on U.S. exports to Iraq.

First, such a punitive measure is unjustified: in 1983, Iraq expelled Abu Nidhal and other members of his "Black June Organization," and publicly announced that it had cut off all support for that group. There is evidence that another group that had enjoyed Iraqi tolerance, the May 15 Organization, has been suppressed. We have no evidence of Iraqi support for acts of international terrorism in the past three years.

Second, reimposition of anti-terrorism controls despite such significant, widely known steps by Iraq would undercut their credibility and effectiveness in encouraging other countries to cease supporting international terrorism.

Third, Iraq's acceptance of PLO fighters from Lebanon was important in arranging their ultimate removal from Israel's borders. While we cannot confirm the press report to which you allude regarding equipment which Iraq provides to uniformed units of the PLO, we have no evidence that these units have been engaged in international terrorism or are likely to do so. Moreover, we are reliably informed that Iraq has encouraged PLO leader Arafat to avoid extremism and to cooperate with King Hussein's and President Mubarak's efforts to get the Palestinians to come to terms with Israel. Iraq has publicly called for an association between Jordan and the Palestinians as both "natural and necessary."

Fourth, we maintain both munitions controls and regional stability controls on exports to Iraq of military equipment because of our neutrality in the Iran-Iraq War.

Fifth, reimposition of anti-terrorism controls would discourage certain U.S. civilian exports such as aircraft without, in Iraq's case, promoting the offsetting foreign policy objective of combatting terrorism.

QUESTIONS SUBMITTED BY SENATOR INOUYE

HONDURAS: REGIONAL MILITARY TRAINING CENTER AND ECONOMIC ASSISTANCE

Senator Inouye: Mr. Secretary, yesterday's international news brought word that Honduras has firmly decided to continue to refuse the training of El Salvadoran soldiers at the Regional Military Training Center and to maintain the current valuation of the lempira.

In view of this development, will the Administration propose to move the RMTC to another location in a different country?

Secretary Shultz: The Administration is not proposing to relocate the Regional Military Training Center (RMTC). Given the absence of agreement with the GOH regarding operation of the RMTC and the March 31 deadline for obligation of FY-84 Supplemental funds, we have notified Congress of plans for reprogramming the RMTC funding for alternative training for friendly Central American countries. Under the reprogramming proposal we have submitted, training would take place in the respective countries' own training facilities rather than at a central, regional facility.

All of the funds reprogrammed for El Salvador will be used for training costs, including training equipment, ammunition, infrastructure and personnel. Funds for Costa Rica will be divided between training and purchases of new equipment urgently needed to cope with the increasing number of Nicaraguan incursions on Costa Rica's northern border. For Honduras, emphasis would be on providing training teams in such key areas as communications, engineering and logistics. Funds to cover the possible closing costs of the RMTC will be reprogrammed to the Honduras MAP account but will be "fenced" for closing of the RMTC should that become necessary. The vast majority of the funds, therefore, will be used for training and training-related purposes as originally appropriated by Congress.

Senator Inouye: The Administration has been attempting to achieve economic policy reforms in Honduras in order that U.S. assistance might have a more beneficial effect. Does the Administration intend to continue to withhold Economic Support Funds until those reforms are initiated?

Secretary Shultz: An agreement was signed on March 25 in which the GOH agreed to a series of economic structural adjustment measures leading to obligation and partial disbursement of the $72.5 million of FY-84 Supplemental ESF assistance. Obligation of the FY-85 ESF appropriation was discussed with the GOH during the recent negotiations and will be obligated based on implementation of the structural adjustments to which the GOH has agreed and agreement on further elements of a comprehensive economic stabilization package.

Senator Inouye: There has been public speculation that the Administration would use these funds which are being withheld from Honduras to indirectly provide assistance to the contras.

Can you put this speculation to rest?

Secretary Shultz: There is absolutely no truth to speculation that funds appropriated for Honduras or any other country are being used to assist the anti-Sandinista freedom fighters. Funds are not being "withheld" from Honduras; disbursement of ESF funding is conditioned on GOH-USG agreement on appropriate Honduran structural economic adjustments. Furthermore, the Administration continues to comply fully with Congressional prohibition of the use of USG funds to support--directly or indirectly--military or paramilitary operations in Nicaragua.

Senator Inouye: Will the funds be returned to the Treasury if Honduras does not enact economic policy reforms?

Secretary Shultz: We anticipate that Honduras will implement the economic measures to which they recently agreed, and that we will successfully negotiate agreement on further appropriate measures leading to obligation and eventual disbursement of the remaining ESF.

COSTA RICAN TRAINING AT RMTC

Senator Inouye: Can you confirm reports that Costa Rican security forces are being trained at the U.S.-funded Regional Military Training Center in Honduras?

Secretary Shultz: Yes; there are 45 officers of an immediate reaction battalion being trained there. They began February 19 and will finish April 30. Training is extremely important for Costa Rica which is menaced by the Sandinistas' continued military growth and belligerency.

Senator Inouye: If so, how is this training being funded?

Secretary Shultz: This training is being funded with Costa Rican FY-84 MAP funds provided under the Continuing Resolution which are separate from those monies requested in the FY 84 supplemental and the FY 85 Congressional presentation for development and operation of a permanent RMTC.

EL SALVADOR - HEALTH SYSTEMS VITALIZATION PROJECT

Senator Inouye: Mr. Secretary, we often find ourselves inundated by reports, statistical presentations, graphs, etc. I'm sure you feel the same way at times. Consequently, we sometimes look carefully at a single project as a test of how things are going.

Not long ago, I received a rather lengthy report from the Administrator of the Agency for International Development which was replete with graphs and statistics indicating that AID had significantly improved its ability to manage and implement the substantial increases in assistance to Central America. It was an impressive report.

At about the same time, the staff of the Subcommittee brought to my attention the history of one project in El Salvador which would, at the very least, raise questions about the accuracy and completeness of the Administrator's report. The facts, stated briefly, are these:

On March 15, 1983 the Committee was notified that A.I.D. proposed to increase funding for the project "Health Systems Revitalization" in El Salvador to finance "the rapid procurement and delivery" of medicines which were required on an emergency basis.

While the Committee had some reservations concerning this reprogramming, it did not object to the request because of the representations by the Agency that there was an urgent requirement for medicine.

In late February of this year, fully nineteen months after we approved the urgent request, we learned that less than one-third of the medicines and medical commodities provided for in the project have been delivered to El Salvador. To our dismay we found that some of the commodity procurement purchase orders had not even been signed.

The Subcommittee Chairman and I have written to the Administrator of the Agency requesting an explanation. I would, however, also appreciate hearing your views.

How indicative is the history of this project? Can A.I.D. effectively implement the vastly increased assistance being provided to Central America?

Secretary Shultz: As you know, A.I.D. has experienced a number of delays and problems in implementing the health project in El Salvador. I understand that Administrator McPherson has written you about the history of that project and the actions A.I.D. has taken to remedy the situation.

As with any endeavor of the size and complexity of the Central American program, there are bound to be occasional, even significant problems. The health project is obviously such a case and one that has demanded special attention in A.I.D., including the personal participation of Mr. McPherson. The problems that gave rise to serious delays in procurement have now been resolved and A.I.D. has indicated that the project is proceeding at a faster rate than before.

It is important to note that while the problems of the health project were real and serious, they are not representative of our experiences to date in administering the substantial amounts of assistance programmed for Central

America. I believe that the record shows that significant advances have been made in administering our assistance programs in the region and expect that we will see continuing improvements in implementation rates in the months to come.

In his letter of Feburary 6, Mr. McPherson gave you what I believe is a full and accurate report on improvements made in administrative arrangements and implementation procedures, and our more important achievements to date in the region. With respect to additional staffing, almost all of the 28 officers expected to arrive at post in Central America by April 1 have in fact arrived. Also, the improved implementation procedures mentioned in the February 6 letter have helped us to transfer large amounts of assistance resources in a more efficient and timely manner. As a result, we continue to make excellent progress in obligating fiscal year 1984 supplemental funds and expect that all supplemental funds appropriated for the Central America Initiative will be committed by the end of March.

Just as importantly, implementation progress in the main has been keeping pace with obligations so that the levels of undisbursed funds continue to be reasonably stable. In fact, despite large increases in obligations between FY 1981 and FY 1984, the pipeline of undisbursed funds for the region as of December 31, 1984 ($393 million) was only ten percent higher than the same pipeline as of the end of FY 1980 ($354 million).

Since the beginning of FY 1984, the pipelines have decreased in El Salvador, Costa Rica, Panama, Honduras, and the Central America Regional Program; remained the same in Belize; and increased by about ten percent in Guatemala. Finally, from the beginning of FY 1984 through the first quarter of FY 1985, the pipeline for the region decreased by $109 million. These are significant accomplishments given the increased assistance appropriated for the region and the accelerated schedules implicit in our requests to you for funds.

In sum, I firmly believe that A.I.D. has shown itself to be quite capable of effectively implementing the increased assistance levels implicit in the Central America Initiative and would expect that the flow of funds will go more smoothly and effectively as more personnel arrive in the region.

Senator Inouye: Do you believe individual accountability would improve the administration of the programs? Would you expect someone to be reprimanded or discharged for the obvious failures associated with this project?

Secretary Shultz: Each A.I.D. officer is evaluated on the basis of his work and as such is held individually accountable. In this case, A.I.D. Administrator McPherson informs me that he has personally reviewed the circumstances surrounding the delays in implementing the health project. He has directed that the present project manager be replaced as soon as a qualified, Spanish speaking officer with strong management skills is located. In addition, the A.I.D. Mission in El Salvador plans to bring another health officer into the office handling this project in the near future. Mr. McPherson feels, and I concur, that this is the most appropriate action to be taken in improving implementation of the health project.

PERSONNEL CHANGES

Senator Inouye: We have discussed the increased managerial responsibilities faced by the Agency for International Development as it attempts to administer and implement the vastly expanded assistance programs for Central America which follow the recommendations of the Kissinger Commission.

Can you explain to the committee how, in the light of these increased responsibilities, a reduction of 233 positions in the Agency is justified?

Secretary Shultz: AID is undergoing certain structural changes and organizational consolidations which will result in personnel savings. The majority of the 233 workyear reduction will take place in AID/Washington. During the past year AID has been redistributing positions to the Central America region to implement the recommendations of the Kissinger Commission within its current ceiling. AID has no intention of reversing that shift in emphasis.

JUSTIFICATION FOR THE DEPARTMENT OF STATE'S POSITION REQUEST IN THE FY 86 BUDGET

Senator Inouye: While you are doing that, perhaps you can give the justification for an increase of 400 positions in the Department of State?

Secretary Shultz: Most of the positions we are requesting in our FY 86 budget are being sought to strengthen the Department's most critical activities - political and economic reporting and analysis, and the protection of those who perform these and other functions at our overseas missions.

The Department of State is the single most important source of the foreign affairs intelligence available to the United States Government. It provides more than half of the useful national security and economic reporting and analysis received by the intelligence community. The Department's ability to meet its reporting and analysis requirements was seriously diminished in the 1960s and 1970s by budget-cutting exercises. To remedy this, we have vigorously sought an increase in reporting and analysis positions. This year we are requesting, as part of a three-year plan, 176 positions.

With the alarming increase in terrorist activities abroad, and, consequently, the need to provide better protection of our personnel, the Department has expanded its effort to strengthen security at our overseas facilities. In this regard, we are seeking positions for 77 regional security officers, 31 overseas security engineers, and marine security guards for 12 of our embassies. A total of 141 positions for security enhancement are included in the FY 86 budget.

Also included in our FY 86 budget request are 47 positions to improve the Department's information and communications systems. Several of these positions are for information systems security. Finally, to provide adequate staffing for more efficient passport operations year round, the Department is requesting additional positions to convert seasonal employees to full-time permanent.

If our request for 393 positions is approved, the Department will have approximately the same number of employees now as it did ten years ago.

However, our responsibilities and work have not stayed at 1975 levels. National reporting and analysis requirements are constantly increasing--and we are a principal source of that information. The number of employees of other government agencies abroad is increasing, and we have to provide basic support services to them. The demand for passports is rising very rapidly and that requires more people. And, security requirements have mushroomed. We do not have enough to meet all these responsibilities adequately.

MILITARY COOPERATION WITH CHINA

Senator Inouye: Mr. Secretary, for the first time in recent memory, China is included in the Congressional Presentation Document for the Security Assistance Programs. I wonder if you could explain what is meant by the statement that the United States has "entered into discussions with China on military technology cooperation?" Does this portend a military assistance relationship in the future?

Secretary Shultz: Since Defense Secretary Weinberger's visit to China in September 1983, we have held a series of discussions between Chinese and American work teams on military technical cooperation. The purpose has been to define and identify specific systems that we could permit China to purchase on a cash basis to meet its legitimate defensive needs. Areas of discussion have included anti-armor, air defense, and defense of China's coastal waters against submarines. We are still at an exploratory stage in all areas, and no sales of equipment have yet been agreed on.

All our discussions of military technical cooperation with China have envisioned cash sales, not grants or credits. We do not have any military assistance projects planned for China.

Senator Inouye: One of the principal human rights concerns the United States has with regard to the practices of the Government of the People's Republic of China is the allegation that it sanctions forced or coerced abortions. This, apparently, is one of the reasons for withholding funding from the United Nations Fund for Population Activities.

If it is indeed found that the People's Republic of China sanctions coerced abortion, or that it sanctions abortion for any reason other than to save the life of the mother, will the administration withhold "military technology cooperation?"

Secretary Shultz: This administration opposes coercive methods of family planning, including forced abortion. It is our understanding that the Chinese Government does not sanction forced abortion, and has made clear the central government's stand against the practice, as reflected in statements by leading officials. These officials have acknowledged that, as press reports have charged, there have been abuses, but assert that such abuses violate official policy, which advocates voluntarism in family planning. Abortion on a voluntary basis is legal in China, as it is in many countries with which we have military ties. We believe that our discussions with the Chinese on military technical cooperation promote our own interests in world peace and regional stability.

PERU: ECONOMIC ASSISTANCE AND FISCAL RESPONSIBILITY

Senator Inouye: Mr. Secretary, you have noted, in your prepared remarks, the President's proposed $70 million economic assistance package for the Andean countries of Ecuador, Peru and Bolivia. Apparently, $45 million of this funding, requested under the Economic Support Fund, is to be provided to Peru.

Do you think that Peru has demonstrated a readiness to take the necessary steps to set its financial house in order?

Secretary Shultz: At this point, we cannot say with any certainty what will be the economic policies of the new Peruvian administration which will assume office on July 28, 1985 and which will be the recipient of our proposed ESF funding. Our dialogues with the candidates for the presidency indicate that each recognizes the severity of the economic and financial problems which beset this fragile democracy and that each has many ideas for grappling with them. In our discussions with that new administration, we will be exploring policy measures we believe can help stabilize the Peruvian economy and lay the basis for self-sustaining recovery and growth. Actual provision of the ESF we have requested for FY 1986 will of course be dependent on a mutually-satisfactory outcome to those discussions.

Senator Inouye: Is it not true that, in December, Peru, which is some $400 million in arrears on its debt payments, made a $60 million downpayment to France as part of a $600 million deal with the French for the purchase of Mirage jet aircraft? Does this show fiscal responsibility?

Secretary Shultz: Peru did make the payment you describe. We all regret that Peru has placed such high priority on the purchase of advanced jet fighter aircraft in a time of economic stringency and critical internal security problems. Peru is a sovereign country and, although we can seek to influence its decisions, we cannot dictate the level or exact nature of its government's military purchases. Overall military expenditures have been cut, even though terrorist and narcotics violence which corrodes democracy is placing increased demands on available resources.

Senator Inouye: Is it not also true that Peru spent this $60 million in France for military hardware at the same time it was seeking the release of a $30 million cash transfer from the United States under a disaster assistance loan?

Secretary Shultz: At the time the payment was made, we and the Peruvians were in ongoing discussions of the status of the disaster assistance disbursement you describe, which was the second tranche of a total $60 million loan to deal with the impact of the "El Nino" climactic disaster. The first disbursement had been made in June 1984, with the second due to be available in December.

Senator Inouye: I understand that, notwithstanding this purchase, the State Department and AID have decided to release the $30 million in U.S. funds.

I further understand that State and AID waived a requirement in the original loan which would not have allowed the funding to go forward in the absence of an agreement between Peru and the IMF on an economic stabilization program.

How do you justify the release of this $30 million cash transfer?

Secretary Shultz: Following the "El Nino" disaster and after careful consultations with the Congress, we decided to provide a $60 million balance of payments loan to Peru last spring. Disbursements were conditioned on Peru's continued eligibility for drawings under its IMF agreement so as to encourage Peru to put its economic house in order. $30 million was disbursed in June 1984 and the second $30 million disbursement was scheduled for December.

Although Peru fell out of compliance with the IMF standby program as of September 30, the funds were still needed to help Peru recover from the balance of payments effects of the "El Nino" disaster, and the private sector needed the credits programmed from local currency generations to weather the resultant economic and financial crisis.

Subsequently, the Peruvian economic team developed and began to implement a program, which, while not adequate for an IMF agreement, is a step in the right direction. After several discussions with President Belaunde and his advisors, it is our judgment that this is the best that we can expect the Peruvians to do during an election period and pending the inauguration of a new administration. Moreover, we have been given strong assurances that the Peruvian government will stick to its current program, which is essential to the democratic transition and to providing a foundation upon which the successor administration can construct stabilization and recovery programs. Disbursement of the funds was therefore authorized.

We continue to seek certain specific assurances regarding the Peruvian government's implementation of its economic program as a precursor to actual release of the funds. The funds will be released once we are satisfied that the Peruvian government will continue implementation of the program.

I would note that the World Bank signed two new loans for Peru in February, totalling nearly $110 million. We understand that the IMF continues its discussions with Peru and that Peru and its commercial creditors have agreed to an interim arrangement of interest payments and maintenance of trade credit lines for the period until the next government takes office. We see this disbursement as an appropriate way of supporting the Peruvian government's efforts to take a number of positive economic policy steps.

Senator Inouye: In view of this history (and the fact that Peru owes $550 million or more on the Mirage deal), why does the Administration propose to reward fiscal irresponsibility by starting a new economic assistance program?

Secretary Shultz: This Administration never seeks to reward fiscal irresponsibility, as I think my answer to your previous question makes clear. Our decision to authorize disbursement of the remaining disaster relief funds for Peru was based precisely on the Peruvian government's moves to institute responsible economic and financial measures in the remaining months of its tenure, and came only after long and intensive dialogue with the Peruvian government.

Addressing your reference to the jet aircraft purchase, let me just say that we must view the issue of military spending in the broader context of overall U.S. interests in Peru. I have already noted, in answering a prior question, that we all share unhappiness over the priority Peru has placed on this purchase. But it would be an unfortunate distortion to hold everything we might do in Peru hostage to that unhappiness. In view of other considerations, we believe that purchase should not keep us from acting as necessary to protect and advance our many and varied interests and objectives in Peru, including the provision of needed economic assistance at a critical time in Peru's political and economic evolution.

Senator Inouye: Even if a new government were to show such responsibility, the $45 million would be dwarfed by Peru's balance-of-payments gap which will exceed $1.5 billion in 1985 alone.

Secretary Shultz: We recognize very clearly the systemic nature and large scale of Peru's economic crisis. We believe that ESF is warranted and, to address your specific point, that even relatively small amounts can make a significant impact. This is due in large part to the fast-disbursing character of ESF, which allows us to be of assistance quickly, and also to the flexibility with which the locally generated currency can be employed.

All three Andean countries were hit by the "El Nino" climactic disaster, which exacerbated economic recession fed by, among numerous problems, low prices for primary export products and heavy debt burdens, with the associated loss of external credits. These exogenous forces highlighted the need to address fundamental internal structural inefficiencies if self-sustaining growth were to be achieved.

Our proposal addresses these concerns. Our infusion of funds will provide critically-needed balance of payments support. The local currency generated will support programs with the Peruvian government designed to enhance the possibilities of market-led growth in a variety of sectors and to get at some of the specific sources of instability.

We have found in the past, and believe it will be the case in the Andes, that the sum of benefits gained from relatively small infusions of assistance will far exceed what the raw numbers might lead one to expect. Certainly, the experience we had with the "El Nino" disaster relief money we reobligated to these countries in Fiscal Years 1983 and 1984 amply supports this conclusion.

This said, I should emphasize that our assistance to any country, including Peru, never is designed to deal, in isolation, with the wide range of development problems. The use of our funds is worked out in coordination with the Peruvian government and with its other donors in a complementary fashion so that funds from all donors combine to make a significant impact.

Senator Inouye: A final question on Peru, Mr. Secretary. I note that the Administration intends to provide $18.5 million in grant military assistance to Peru in fiscal year 1986 as "a new assistance initiative with Peru."

Does this not release funds from Peru's budget for additional payments on the Mirage purchase?

Secretary Shultz: The use of any security assistance funds appropriated for Peru will be carefully monitored to ensure that it is in accordance with arrangements worked out between the two governments. We have a number of objectives we will seek to attain with these funds in Peru, which are outlined in the Congressional Presentation Document, and I think it is important we have grant assistance to achieve those goals. The exact usage will be the subject of discussions with the Peruvian government. But I can assure you there will be no direct use of these funds for the purchase you mention.

As far as indirectly freeing up other Peruvian funds, I am of course in no position to speak on the allocation of resources within the Peruvian budget. I could note, however, that the MAP sum we are requesting for FY 1986 (actually $18.35 million, not $18.5 million) is relatively small compared to the size of the contract for the jet aircraft, so we would expect it to have little indirect impact on that arrangement.

BOLIVIA: ECONOMIC SUPPORT FUNDS

Senator Inouye: Mr. Secretary, Bolivia is one of the Andean countries which is to receive economic support fund assistance under the initiative you mention in your prepared remarks.

Bolivia has an inflation rate recently estimated at 115,000 percent; a $3.7 billion foreign debt and a debt service ratio in excess of 100%; a fiscal deficit in excess of 28% of the Gross Domestic Product; and, a money supply growing so fast that Bolivian banknotes produced in Europe are now the country's third largest import.

A member of the committee staff, recently in Bolivia, found that it is cheaper to buy a liter of gasoline than a single cigarette. The government has all but officially repudiated its external debts. General strikes are almost a daily occurrence with only those offices which pay government salaries remaining open.

In this context, Mr. Secretary, can you explain to the committee what we could possibly expect to see as a result of giving a $10 million cash transfer to Bolivia, a country, which in addition to the problems I have noted, is well over $1 billion in arrears on its foreign debt?

Secretary Shultz: I appreciate your well informed concern regarding developments in Bolivia. The magnitude of some of the statistics you quote is somewhat smaller according to information available to us, but firm figures are difficult to obtain. We are dismayed, as you are, by the enormity of the crisis there.

Let me first say that in no country is U.S. assistance the entire solution to economic and financial difficulties and, as you point out, certainly not in Bolivia. The country faces daunting challenges to its economic and political systems, and it is appropriate for us to consider ways in which we can assist.

We expect to see presidential elections this summer in Bolivia, and we would like to see the new government enter office under the best possible circumstances in which to address its economic problems, and we would like to be able to work with that government in pursuing economic policies which are likely to set the stage for recovery and resumed growth. In early February the current government undertook measures which appear to have somewhat arrested, if not reversed, the decline of the formal economy. President Siles authorized a series of decrees, including a devaluation of the official peso to dollar exchange rate, and an upward readjustment of certain tariffs, including the price of gasoline.

The significance of these measures will depend on the follow-up steps taken. I think we can all salute those in Bolivia who are trying to tackle problems some may be tempted to regard as insurmountable.

One last point, if I may. Bolivia has been paying obligations due to bilateral and multilateral creditors. It suspended payments in May, 1984 on interest and principal due international commercial banks. Although there is no short term solution to Bolivia's debt service problem, we would hope that the next government will undertake policies which will give Bolivia's creditors renewed confidence that it will manage its economy in a manner which warrants continued cooperation in seeking a longer term solution.

JAMAICA INTERNATIONAL YOUTH CONFERENCE

Senator Inouye: In January of 1981, Jamaican Prime Minister Edward Seaga made a celebrated visit to the United States. His support of private sector approaches to development and the strengthening of the free enterprise system were noted toasts at White House gatherings. Soon afterward Jamaica became the centerpiece of the President's Caribbean Basin Initiative.

Now, Jamaica is on the rocks. Plagued by large foreign debts, the collapse of the bauxite industry, record currency devaluations, high unemployment, and a lackluster record of American private investment, Jamaica is slipping into an economic malaise. This has occurred despite the fact that Jamaica, after El Salvador and Costa Rica, was the largest recipient of American aid in 1984.

Under these circumstances, can you explain why the United States is reprogramming funds to increase the U.S. contribution to a Jamaica youth conference? Should we not concentrate our assistance on efforts to restore the economy?

Secretary Shultz: I think your question suggests a relationship where none exists. The economic problems Jamaica now faces are at least in part a legacy inherited when Prime Minister Seaga came to office. His efforts to adjust Jamaica's economy have been supported not only by the United States, but also by the IBRD, the IMF and other donors. These adjustments, however, have been implemented under difficult circumstances highlighted first by depression in the major Western economies, and second by continued depressed prices for Jamaica's major exports, especially bauxite and sugar. Such adjustments as allowing for the Jamaican dollar to float, as the Prime Minister has noted, have made Jamaica a more attractive site for foreign investment and have made Jamaican exports more competitive.

The Jamaicans began work on the International Youth Conference in 1981, before Jamaica's current economic problems began. This initiative was (and is) viewed by the Jamaicans as a serious effort to contribute to the promotion of democracy among the youth of the world. The conference, to be held April 6-9, 1985, is an excellent opportunity to rally future political leaders from the developed and developing world to Jamaica to discuss their hopes for democracy. In spite of recent economic difficulties the Jamaicans have continued to work diligently to make the conference a meaningful experience for the hundreds of youth who will participate.

When the Jamaicans in 1983 first asked for our support, we agreed with the stipulation that the Jamaicans would also seek funding from other governments as well as from the private sector. They have vigorously sought those funds worldwide and even now, are still soliciting contributions. Given the importance of the effort for fostering democracy and the Jamaican's commitment to its success, we agreed to make available some of the needed additional funds.

HELPING JAMAICA RESTORE ECONOMIC STABILITY

Senator Inouye: What measures does the Administration propose to take to help Jamaica restore economic stability?

Secretary Shultz: We continue to believe that the principal impediment to restoring economic stability in Jamaica is the foreign exchange crisis. The majority of our assistance is focused on helping Jamaica to close its balance of payments gap and, at the same time, to reinforce the Jamaican government's efforts to restructure the economy in order to put it on a self-sustaining basis. To multiply the impact of our efforts, our policy dialogue with the Jamaican government on the ESF and PL-480 programs is closely coordinated with the structural adjustment programs of the World Bank and the International Monetary Fund. For FY 1986 we have requested $70 million in ESF and $30 million in PL-480 to help Jamaica. We are also requesting $24 million in development assistance to assist the Jamaican government to increase employment and to improve the effectiveness of social services and institutions dealing with the critical areas of agriculture, education, urban development and family planning.

CONDITIONS ON FY 86 ESF PROGRAM FOR JAMAICA

Senator Inouye: What policy reform conditions will be attached to the proposed $70 million ESF program for FY 1986?

Secretary Shultz: I cannot tell you what specific covenants will emerge from negotiations on a new ESF program for Jamaica. In the past we have worked with the Jamaican government to develop a program whose goals are to help stabilize the economy and to implement needed structural reforms in order to increase production. To achieve these goals, the Government of Jamaica has taken a series of actions including reducing import restrictions, public sector employment and foreign exchange controls, and divesting itself of government-owned enterprises. I would expect that similar objectives will evolve from discussions on the ESF program, once Congress authorizes the program and appropriates funding.

REPORT ON TRANSFERS OF US MILITARY EQUIPMENT TO EL SALVADOR

Senator Inouye: As you know, the Department of State has submitted a report to the Congress listing military equipment transferred to El Salvador from the United States since 1980. The report was submitted pursuant to section 108 of PL 98-332, the fiscal year 1984 supplemental appropriations bill.

Senator Kennedy has brought to my attention the fact that the report as submitted lists only transfers funded by the security assistance program.

Since the law clearly requires an accounting of all U.S. military equipment transferred to El Salvador and allows for a classified version, if necessary, can you explain why the Department did not fully report such transfers.

Please provide, for the record of this hearing, a complete report fulfilling the requirements of the law, even if portions of it must be classified.

Secretary Shultz: It is the Department's understanding that the provisions of the section 108 of the 1984 Supplemental Appropriations Bill (P.L. 98-332) required the reporting of transfers funded by our security assistance program with El Salvador. The section was enacted in the context of the provision of additional funds to El Salvador and the legislative history evidences no contrary intention. As you know, there are established and regular procedures for reporting assistance which is supplied through intelligence sources. The Department's interpretation of section 108 is consistent with those procedures and assumes that section 108 was not intended to contravene the established procedures.

I believe that the report that was submitted to the Congress in November, 1984 fully met the requirement of section 108.

SANDINISTA CONSOLIDATION OF POWER IN NICARAGUA

Senator Inouye: Mr. Secretary, in your prepared statement, you assert that the Sandinista leaders in Nicaragua are moving to consolidate their power. You make the further assertion that should they be successful, "We could confront a second Cuba in this hemisphere, this time on the Central American mainland--with all the strategic dangers that this implies."

What are these strategic dangers?

Secretary Shultz: First, let me review the record on Cuba. Since Castro's rise to power, Cuba has become a Soviet surrogate. It has built up a military establishment second only to Brazil in Latin America. It has exported subversion in Central America, the Caribbean, and South America. It has sent tens of thousands of troops to Africa, where they have played a destabilizing role. Finally, it has received 4,600 Soviet military personnel, and permits Soviet use of its facilities to monitor U.S. military activities. The strategic dangers that would be posed by the emergence of a second Cuba on the Central American mainland would include the potential for a Soviet bloc military presence, including the use of Nicaraguan airfields and ports by the Soviets for aerial and maritime reconnaissance; the increased threat to the Panama Canal and to the United States' important maritime supply routes; and the heightened danger posed to our friends and neighbors in the region by Sandinista export of revolution and the continuing military buildup in Nicaragua.

Senator Inouye: You say, "There are those who would look the other way, imagining that the problem will disappear by itself." That may be true. I find it difficult to accept, however, your assertion that, "There are those who would grant the Sandinistas a peculiar kind of immunity in our legislation--in effect, enacting the Brezhnev Doctrine into American law." What kind of immunity do you speak of?

Secretary Shultz: I was referring to the principle that once a Marxist-Leninist government has been established in a country, that country cannot then revert to another form of government. The Soviets enforce that principle by force of arms in Eastern Europe. The Sandinistas, having imposed their system by force of arms are bent on sustaining it the same way. They have refused to have free and fair elections and have denied the political opposition any meaningful participation in government and proceeded to implement a Marxist system following the Cuban model. The pressure placed on the Sandinistas by the Nicaraguan insurgency represents the only effective opposition to Sandinista goals. Denial of United States support for these insurgents has the effect of sanctioning the consolidation of a Marxist regime in Nicaragua and denying the possibility of democratic change in that country--in effect leading to results like we have seen in Eastern Europe.

Senator Inouye: Who are these people?

Secretary Shultz: I am not referring to specific individuals; rather, I was speaking in general terms of those who oppose Administration efforts to support the Nicaraguan armed opposition.

Senator Inouye: Are they traitors?

Secretary Shultz: No, I have not said or implied that they are.

Senator Inouye: Are they agents of the Soviet Union?

Secretary Shultz: No, nor have I suggested that.

Senator Inouye: At a later point in your statement, you say, "The skeptics were wrong about El Salvador, they were wrong about Grenada, and they were wrong about Nicaragua--and all for the same reasons." Will you please elaborate?

Secretary Shultz: They were wrong because in all three cases, they assumed that political and economic change had to be achieved through violent, extremist, Marxist groups, and that such groups actually represented and enjoyed the support of the majority of the population. In the case of El Salvador, the skeptics assumed that history would repeat itself, and that an unjust political structure in a Central American nation could not be changed through the democratic process. They were wrong. In the case of Grenada, the skeptics assumed that a revolutionary government that claimed great popular support actually had it. The broad support of the Grenadian people for our rescue mission and for their nascent democratic process has proven the skeptics wrong. Finally, in the case of Nicaragua, they assumed that the Sandinistas would carry out their 1979 commitments to support pluralism and non-alignment, and that the Sandinistas would continue to enjoy the support of majority of the population. Mounting evidence of the Sandinistas' Marxist inclinations, their refusal to carry out their promises to support democracy, and the advent of an anti-Sandinista insurgency with popular support have proven the skeptics wrong on this issue as well.

Senator Inouye: Are you suggesting that United States actions are prompted by the same factors?

Secretary Shultz: We take as given that there is broad popular support for alternatives to the violent change proposed by Marxist groups in the hemisphere to deal with political and social injustice. A fundamental element of our policy toward Central America is precisely to support national reconciliation and economic development through genuinely democratic political processes, and we seek to work closely with the Congress to establish bipartisan support for these policies.

Senator Inouye: Are you suggesting that the United States ought to invade Nicaragua?

Secretary Shultz: No, we have made clear that we do not intend to invade Nicaragua or to overthrow its government. Our objectives regarding Nicaragua remain the following:

1) the termination of Nicaraguan support for subversion in neighboring countries;
2) the reduction of Nicaragua's expanded military apparatus to restore military equilibrium in the region;
3) the severance of Nicaragua's military and security ties to the Soviet bloc and Cuba;
4) the implementation of Sandinista promises to the Organization of American States on democracy.

DIALOGUE, INVESTIGATIONS AND ELECTIONS IN EL SALVADOR

Senator Inouye: Mr. Secretary, in May of last year, Jose Napoleon Duarte was elected president of El Salvador. Since that time, he has initiated a dialogue with the FMLN guerrillas and appointed a commission to investigate the most notorious murders.

These actions, I believe, have been supported by the U.S. Government. Is that correct?

Secretary Shultz: The U.S. Government supports President Duarte's decision to initiate a political dialogue with the FMLN and to appoint a commission to investigate serious political crimes in El Salvador. We have noted our support for these initiatives in the past. I reiterate that support today.

Senator Inouye: Is it true that the National Assembly of El Salvador, which is controlled by Roberto D'Aubuisson's ARENA and other rightist parties, has denied funding to Duarte's investigative commission?

Secretary Shultz: Early this year the Salvadoran Legislative Assembly voted to reduce the discretionary budget available to President Duarte. That budget is for support of the operations of the presidential staff and also supports the activities of presidential commissions. The net effect of the Assembly's action was to severely restrict the funds available to President Duarte and his immediate staff. The commissions established by Duarte, the investigative and probity commissions, were subject to the same financial restrictions but were not specifically the targets of the Assembly action.

Senator Inouye: Has anyone been brought to trial?

Secretary Shultz: The commission appointed by President Duarte to investigate several of the most notorious crimes committed in El Salvador has focused its initial investigative efforts on the murder of Archbishop Romero. The commission has not completed its investigation of the Romero assassination. To date, no one has been brought to trial as a result of the work of the commission.

Senator Inouye: What of the U.S.-sponsored talks with the FMLN? Is the U.S. pursuing a two-track policy in El Salvador?

Secretary Shultz: I question your use of the term "U.S.-sponsored talks." President Duarte offered a dialogue to the FMLN guerrillas on his own initiative after consulting with other political and military leaders in El Salvador. The United States has not participated in the talks. The United States does not sponsor the talks. As I said before, however, the U.S. Government does support the dialogue process.

I would not categorize our policy towards El Salvador as a two-track policy. We have followed the same consistent policy of support for democracy, economic development, defense against outside-supported insurgency, and dialogue since this Administration came to office. Democracy and dialogue are not separate tracks. We join President Duarte in his hope that the dialogue process which he has initiated will eventually result in the FMLN ceasing its insurgency and joining in the democratic political process in El Salvador.

Senator Inouye: Have the talks been suspended? Why?

Secretary Shultz: Representatives of the Government of El Salvador and the FMLN have not met for dialogue since the November session at Ayagualo. At that session, the representatives of President Duarte had hoped to be able to discuss the possibility of drawing the FMLN-FDR into the March 31 elections. Instead, the guerrilla representatives presented the same set of rigid demands which they had presented before in public propaganda broadcasts. Analyzing the results of this meeting, the Salvadoran government concluded that there was no chance of convincing the guerrillas to participate peacefully in the March 31 elections. Thus, the political pressure for immediate follow-up sessions was eliminated. The talks have not been suspended. I am sure both sides to the dialogue are studying and considering future positions and responses. Not surprisingly, most of the Salvadoran political community has been totally involved in the March 31 election campaign for the past several months. President Duarte has announced that he will resume talks with the guerrillas after the elections, maintaining his goal of seeking peace through dialogue with the FDR/FMLN.

Senator Inouye: El Salvador is to hold elections to the National Assembly on March 31.

Is the U.S. contributing to the financing of these elections?

Secretary Shultz: The U.S. is providing some economic assistance for the March 31 elections. Largely through the AID FY 1984 balance of payments program, the U.S. has allocated $4,560,000 to support costs of technical preparations for and administration of the elections. In addition, AID has allocated $400,000 to the elections observer project to finance the costs of international transportation and communications, food and lodging, and certain administrative costs involved in hosting up to 200 official foreign observers. Finally, AID has provided $100,000 to contract Deloitte, Haskins and Sells, the U.S. accounting firm which helped develop El Salvador's automated electoral register, to provide technical assistance necessary to train new Central Elections Commission staff in the operation and maintenance of the automated electoral register.

Senator Inouye: Duarte's veto of a new election law, allowing conservative parties to pool their votes after the election, was overturned by the Supreme Court.

What importance does this have for U.S.-supported programs in El Salvador?

Secretary Shultz: The veto dispute between President Duarte and the National Assembly was an issue of constitutional interpretation. Quite correctly, the dispute involving interpretation of the Salvadoran Constitution was submitted to the Supreme Court. The Supreme Court decided the constitutional question of the President's authority to exercise a line item veto in favor of the National Assembly. President Duarte accepted the decision of the court and the new electoral law was enacted.

I see this entire incident as an example of a democratic and constitutional system operating in El Salvador exactly as it is supposed to operate. The legislative and executive branches of government disputed the interpretation of a provision of the national constitution. The judicial branch resolved the dispute. I expect the March 31 election, governed by the new electoral law, to be free and fair. I do not expect this Salvadoran constitutional dispute to have any real impact upon U.S.-supported programs in El Salvador.

Senator Inouye: Is there any truth to the assertions that politically motivated killings are again on the rise as elections approach?

Secretary Shultz: In view of persistent reports that overall political violence has been on the rise in El Salvador, our Embassy has re-examined the figures for the level of violence between January 1 and March 15. Those figures reveal a continued very low level of possible political murders attributed to the extreme right. At the same time, they show a substantially higher level of leftist political murders. Leftist murders were particularly noteworthy because, during this period, there were stepped up attacks on politicians, high profile urban or semi-urban terrorism or leftist attacks against the unfolding electoral process. Thus, for this two and one-half month period the Embassy reports 61 murders as clearly or possibly attributable to the left and five that are possibly attributable to the extreme right, in a total of 82 political, or apparently political, murders. Apart from the left's killing of seven political figures in this period, a substantial increase in that particular category of victim, overall left and right political violence figures remain at levels which, although still too high, are low by comparison with those of the early period of the Salvadoran conflict.

REFORM IN THE SALVADORAN ARMED FORCES

Senator Inouye: When the Congress was considering the President's request for urgent supplemental military assistance last year, I cautioned against the provision of increasingly sophisticated weapons.

I think that caution bears repeating.

"Perhaps the strongest argument against increased military assistance is that it would undermine reform in the military. The armed forces in El Salvador are improving because they must reform to win. If we provide massive amounts of military aid we hold out a 'technological option to reform'; we say, in effect, 'you do not have to reform, to improve leadership and command, we will provide you with sufficient equipment to overcome these inadequacies.'"

I concluded, "The technological option, if pursued to its logical conclusion, can defeat the guerrillas, but it will leave an unreformed military with the power to rule El Salvador."

Since that time, Mr. Secretary, the United States has provided El Salvador with the C-47 airborne fire support platforms and Hughes 500 helicopter gunships.

Is this not evidence that the United States is providing the Armed Forces of El Salvador a "technological option to reform?"

Secretary Shultz: No, the United States is not, through the provision of military hardware, providing the Salvadoran Armed Forces (ESAF) with a "technological alternative to reform." Equipment or weapons alone cannot win a war. The army receiving the equipment must still have leadership, morale and dedication to a goal in order to be victorious. The Administration, as well as the Government of El Salvador and the leadership of the Salvadoran Armed Forces, realizes this basic military tenet and together we have engaged in a constructive dialogue in this regard.

The Senator's question suggests that this dialogue has not resulted in progress and that there have been no reforms within the ESAF. This assumption does not stand up to the facts. The Salvadoran Army has been undergoing a very significant process of reform for the past several years, driven by both internal and external pressures. The need to weed out incompetent field commanders in order to defeat the enemy on the battlefield has caused a much greater emphasis to be placed on training and promoting professional, non-political soldiers. Such professionalism is also stressed in the military training being provided to the ESAF by the United States. The democratic transition that is taking place in El Salvador has also affected the military. The military leadership has accepted the idea of command by a democratically elected, civilian government. There is still room for progress in the development of democratic attitudes in the military hierarchy but reforms are being instituted and progress is being made.

In addition, I would like to stress the fact that the equipment and arms provided under the US security assistance program are carefully reviewed to ensure that they incorporate only the lowest level of technology necessary to accomplish the mission successfully. It would be self-defeating for the United States to provide the Salvadorans with equipment which is prohibitively expensive or too difficult to maintain because of its sophistication.

RULES OF ENGAGEMENT FOR THE SALVADORAN AIR FORCE

Senator Inouye: When the State Department reported the misuse of a C-47 by the Salvador Air Force, the Department said, "Neither we nor the Government of El Salvador anticipated the ingenuity of the Air Force in using the spare weapons to arm the second plane."

Is there not a lesson to be learned from this incident? What does it say about El Salvador's agreement to abide by certain "Rules of Engagement"?

Secretary Shultz: The rules of engagement governing combat operations of the Salvadoran Air Force were laid down by President Duarte after he took office. They are the same for all types of aircraft. These rules of engagement should not be confused with the agreement reached with the US government regarding the use of only one of the two US-provided C-47 AFSPs during a two month evaluation period. Although the use of the second C-47 was a technical violation of the agreement with the US, the aircraft was employed in strict accordance with the rules of engagement. As a result of this incident, the Government of El Salvador has assured us that greater care will be taken in the future to see that all appropriate levels of the ESAF hierarchy are made aware of agreements with the United States so that this type of misunderstanding will not recur.

The specific incident to which the Senator is referring took place January 7-8, 1985 in San Vicente province. Responding to an urgent need to protect ESAF troops who were outnumbered and in great danger of being overrun by the enemy, a commander on the scene made a decision to arm and send into battle a second C-47 aircraft. This aircraft was in large part responsible for turning a possible defeat into a victory. The commander was unaware of the agreement by the Government of El Salvador that only one C-47 would be used during the evaluation period. However, both C-47s followed precisely the strict rules of engagement in order to prevent civilian casualties and in fact there were no civilian causualties.

One lesson to be learned from this battle is that the Salvadoran Air Force does abide by the rules of engagement in very complex battlefield situations, involving both day and night operations.

Senator Inouye: When the Department speaks of "Rules of Engagement" in relation to helicopter gunships, is it again failing to anticipate the ingenuity of the Salvadoran Air Force?

Secretary Shultz: The United States has not supplied helicopter gunships to El Salvador. If the Senator is referring to the Hughes 500D aircraft armed with the M-27 minigun system, these helicopters, as do all aircraft in the Salvadoran Air Force inventory, abide strictly by President Duarte's rules of engagement. We have received no credible reports that these aircraft have been misused. If the Senator has credible information to the contrary, we would very much like to be made aware of the information.

ESCALATION OF THE WAR IN EL SALVADOR

Senator Inouye: Many of my constituents have written to me to express their concern about the escalation of weapons technology provided to El Salvador.

U.S. military assistance to El Salvador began in 1980 with the provision of "non-lethal" equipment to the military.

The next step was the provision of arms and equipment to foot soldiers.

Next came helicopters to move these troops quickly to the scene of battle.

And, now, we have helicopter gunships armed to protect transport helicopters.

Will this not lead to attacks on the gunships, possibly with surface-to-air missiles?

Secretary Shultz: The term "helicopter gunships" is misleading because it generally refers to armored attack helicopters with one or more pilot-operated weapons systems: TOW missile launchers, 2.75 inch rocket launchers, grenade launchers, miniguns or chain guns. The AH-64 Apache and the AH-1 Cobra are examples. We have not supplied helicopter gunships to El Salvador.

With U.S. security assistance funds, we have provided the UH-1H, an all-purpose transport and utility helicopter, armed with two M-60 machine guns which are placed in the helicopter doors and operated by crew members to afford an otherwise unarmed helicopter a measure of self-protection. In addition, we provided two M-27 minigun systems for use in civilian Hughes 500D observation helicopters, which the Government of El Salvador purchased with its own funds, after the guerrillas began to fire on these previously unarmed aircraft.

The UH-1Hs and the Hughes 500s armed with the M-27 have been employed by the Salvadoran air force responsibly, in full compliance with President Duarte's strict rules of engagement; and neither are "high technology" items.

The guerrillas to date have not demonstrated an access to surface-to-air missiles and we have no reason to believe that the guerrillas will be permitted to acquire SAMs to employ specifically against the Hughes 500. If these weapons are acquired, they would be used against any and all Salvadoran armed forces aircraft, fixed wing as well as rotary wing, and would indicate a carefully considered decision on the part of the Soviets, Cubans and Nicaraguans, who supply the Salvadoran guerrillas, to escalate the war in such a fashion that the guerrilla supply lines are likely to be directly traceable to the Soviet Union.

We do not believe that the Soviets and their proxies are willing to have their involvement in El Salvador confirmed so dramatically at this time. In any case, we cannot avoid providing the Salvadorans the equipment they need today to counter the guerrillas' assualt on El Salvador's democratic system in anticipation of a future technological escalation on the part of the Soviets which may or may not occur.

Senator Inouye: Is this not a dangerous and unnecessary escalation of the war?

Secretary Shultz: No, we are not escalating the war. As I just explained the UH-1H armed with M-60 machine guns is useful for self-protection. The M-27 minigun system on the Hughes 500D helicopters has been used primarily in the defensive mode, when the helicopter has received hostile fire from guerrilla forces. It has occasionally been effective also in providing aerial fire support for government troops in contact with the enemy. The 500D equipped with the M-27 is an appropriate platform to provide convoy protection and to provide fire support to counter and suppress guerrilla fire in landing zones. U.S. doctrine and tactics call for such support when our own troops land under fire, and I do not believe we should expect Salvadoran soldiers to operate with less.

Prolongation of the war and its debilitating effects are the result of an increasing technological sophistication of the Salvadoran Armed Forces but are the direct result of the refusal of the guerrillas to lay down their arms and participate peacefully in El Salvador's democratic process. U.S. military assistance helps the Salvadoran armed forces to meet effectively the operational requirements and conditions imposed by guerrilla tactics at the lowest feasible level of technology, and the defensive systems I have described to you, therefore, are appropriate for inclusion in the U.S. security assistance program to El Salvador.

PROSECUTION OF SUSPECTS IN U.S. CITIZEN CASES

Senator Inouye: Mr. Secretary, on May 24, 1984, five former members of El Salvador's National Guard were convicted of the December 1980 slaying of four United States churchwomen. On the nineteenth of June, Salvadoran authorities imposed the country's maximum penalty of 30 years in prison on those convicted of this crime.

To your knowledge, are these five men still incarcerated?

Secretary Shultz: The five convicted murderers of the U.S. churchwomen remain imprisoned. All appellate briefs have been filed but there are no indications of an imminent decision on those appeals.

Senator Inouye: Last year, the Administration pointed to the arrest of a Captain Eduardo Avila as evidence that the government of El Salvador was making a strong move to curb human rights abuses. You will recall that Captain Avila was said to have planned the murder of Michael P. Hammer and Mark David Pearlman, two Americans working for the AFL-CIO American Institute for Free Labor Development. They were murdered along with Rodolfo Viera, Director of El Salvador's Agrarian Reform Institute.

Does the Department know the present whereabouts of Captain Avila?

Secretary Shultz: To the best of our knowledge, Captain Avila remains in San Salvador on unpaid leave of absence from the Salvadoran army.

Senator Inouye: Will he be brought to trial?

Secretary Shultz: If sufficient evidence to substantiate the allegations of his involvement in the Sheraton case can be obtained and presented before a judge, then he can be brought to trial for his participation in that crime.

Senator Inouye: What of Lieutenant Lopez Sibrian? Will he be brought to trial?

Secretary Shultz: Last year, the Salvadoran Attorney General's office made a concerted effort before the Supreme Court to obtain a reversal of the lower courts' dismissal of charges against Lt. Lopez Sibrian. The government submitted its brief to the court on October 18 after the members of the court's Penal Chamber agreed to hear the government's appeal. However, on November 15 the Supreme Court ruled to uphold the definitive dismissal of charges against Lopez, thus ending the two-year effort to prosecute him in connection with the Sheraton murders. This decision was based on legal technicalities which favored Lopez despite the substantial evidence of his involvement in the murders. The court's action notwithstanding, Lopez was dismissed from the Salvadoran armed forces on November 30.

CYPRUS: TURKISH GOVERNMENT CONTRIBUTION TO SETTLEMENT

Senator Inouye: Mr. Secretary, the Administration has requested more than $900 million in fiscal year 1986 assistance to Turkey. In a year of budgetary stringency, the program for Turkey, already large, is to grow by $60 million. Recalling the close (51-46) vote on AID to Turkey in the last Congress, what can you tell the Committee about Turkey's contribution to a resolution of the Cyprus dispute?

Secretary Shultz: The Government of Turkey has expressed its sincere interest in seeing a settlement reached on the Cyprus question. We believe the Ankara government urged the Turkish Cypriot community leadership to be forthcoming during the Secretary General's proximity talks last fall. We believe the influence brought to bear by the Government of Turkey was crucial to the Secretary General in gaining Mr. Denktash's agreement at the January, 1985, summit meeting.

CYPRUS: TURKISH SECURITY ASSISTANCE AND A CYPRUS SETTLEMENT

Senator Inouye: The Security Assistance Congressional Presentation Document states, "The Administration believes the security assistance requested for Turkey for FY 1986 is fully compatible with the goal of a peaceful settlement in Cyprus." Would you care to elaborate on that statement?

Secretary Shultz: The Administration does not see as valid any linkage between our security assistance to Turkey and Greece on one hand and the solution of the Cyprus question on the other; to the contrary, we believe such linkage and the reduction of assistance to Turkey will prove counterproductive.

Senator Inouye: What is the present situation in Cyprus?

Secretary Shultz: Presently, the two Cypriot communities are working with the UN Secretary General in the search for a fair negotiated settlement. The Secretary General's efforts resulted in a summit meeting between the leaders of the two communities in January. At that meeting the Turkish Cypriot side accepted the Secretary General's draft documentation while the Greek Cypriots would accept it only as a basis for negotiations. The Secretary General continues to work with the two Cypriot parties in efforts to restart the process.

Senator Inouye: Is the government of Greece contributing to a resolution of the dispute?

Secretary Shultz: The governments of Greece and Turkey both take great interest in the Cyprus issue and both have said they support the Secretary General's role.

THE UNITED STATES AND GREECE

Senator Inouye: In your prepared remarks, you say, "We have our differences with the Greek Government." What do you mean by that?

Secretary Shultz: We have had differences with the Government of Greece--over INF deployment in Europe; arms control; the Korean Airlines shootdown; terrorism; and anti-US rhetoric. Nevertheless, Greece is an important ally of the United States. We want better relations and believe our differences should be handled constructively as friends and allies. Improved relations are a two way street that will require a similar approach from the Greek Government.

Senator Inouye: Will the provision of $500 million in military assistance help to resolve these differences? How?

Secretary Shultz: The security assistance we are requesting for Greece is an integral part of our close bilateral defense relationship which includes common membership in NATO as well as U.S. use of important military facilities in Greece. We cannot anticipate, however, that U.S. military assistance will resolve outstanding bilataral differences. U.S. assistance is necessary to improve Greece's capability to carry out its assigned tasks under NATO. It will permit continued purchase of military equipment, such as the purchase of 40 F-16's to which Greece recently committed itself. Separately, our proposal of $1.75 million for international military education training will give the Greek military invaluable association with U.S. training and tactics.

MAP FOR EQUATORIAL GUINEA

Senator Inouye: Mr. Secretary, you have quoted President Reagan's State of the Union Address, saying, "dollar for dollar, our security assistance contributes as much to Global Security as our own Defense Budget."

I am not sure whether this says more about the contribution of our Defense Budget to Global Security or the contribution of our Security Assistance Program, but would you tell the committee how, dollar for dollar, a newly initiated $1 million grant military assistance program for Equatorial Guinea contributes to Global Security?

Secretary Shultz: The proposed program for Equatorial Guinea is intended to help that nation acquire small patrol boats in order to have a capability to police and protect their waters. The Soviets were the major suppliers of patrol boats, but they did not provide the country's military with the supplies, spare parts, or training necessary to maintain or operate the equipment.

By moving into this area, we will demonstrate once again that the Soviets are an unreliable partner. Removing Soviet influence and gaining our own influence with the African military and governments is one of the key objectives of the Administration in Africa.

Additionally, helping Equatorial Guinea to gain the capability to monitor and patrol their coast and their EEZ will hopefully lead to a situation where that country will be able to protect its fishing grounds from overfishing by the Soviets and other nations. This will help bring stability to Equatorial Guinea and increase the chances for economic viability, although certainly this aspect alone will not turn the tide, but will help in its own measure. If we can achieve some or all of these goals, the US will get a return on investment which far exceeds the dollar amount expended.

MILITARY ASSISTANCE FOR IVORY COAST

Senator Inouye: Since $12 million in military assistance grants was provided to the Ivory Coast in fiscal year 1984, but none are proposed for fiscal year 1986, am I to conclude that the Ivory Coast's contribution to Global Security has been made or that the Ivory Coast no longer needs assistance to make its contribution to U.S. security?

Secretary Shultz: The reference to a $12 million MAP program in the Ivory Coast in FY 84 is a typographical error in the Africa Regional Summary of the FY 86 Congressional Presentation Document. The Ivory Coast has never received any MAP grants or FMS credits from the US, it receives only IMET training grants.

PAKISTAN'S NUCLEAR PROGRAM

Senator Inouye: Mr. Secretary, recently evidence has again surfaced that Pakistan is actively seeking the technology to develop a nuclear explosive device. Are you confident that this is not occurring?

Secretary Shultz: The U.S. has repeatedly expressed its serious concerns over the Pakistan nuclear program. We have made it clear to the Pakistani government that activities such as the case of Pakistani national Nazir Vaid, who was convicted of violating the U.S. Arms Export Control Act, could jeopardize our ability to continue our security assistance relationship. The Government of Pakistan is well aware of our concerns, and has assured us that it has no intention of acquiring nuclear explosives.

Senator Inouye: I believe that section 669 and 670 of the Foreign Assistance Act, sections which pertain to nuclear enrichment transfers and nuclear transfers, have been waived with respect to Pakistan. Is that correct? If so, what are the conditions of the waiver?

Secretary Shultz: You are correct. In order to permit resumption of our security assistance program for Pakistan, the Foreign Assistance Act was amended in 1981 to permit a waiver of the prohibitions of Section 669 (the Symington Amendment) for Pakistan until September 30, 1987 if the President determined that providing assistance to Pakistan during that period would be in the U.S. national interest. On February 10, 1982, the President invoked the waiver. At the same time, the President also invoked the waiver provision concerning the termination of assistance for reprocessing activities of Section 670 (the Glenn Amendment) by certifying to the Congress that not providing assistance to Pakistan "would be seriously prejudicial to the achievement of United States non-proliferation objectives and otherwise jeopardize the common defense and security." Together, these waivers will permit the continuation of our security assistance to Pakistan until September 30, 1987, provided that no other prohibitions on such assistance become applicable.

U.S. ASSISTANCE TO PAKISTAN

Senator Inouye: We are at about the mid-point in the six-year, $3.2 billion assistance program for Pakistan which was initiated by the Reagan Administration. Could you provide a summary explanation of how Pakistan's economic and security situation has improved as a result of this assistance?

Secretary Shultz: Our assistance to Pakistan has made important contributions to Pakistan's economic development and defense capabilities while serving U.S. interests in Pakistan and the region.

First, our assistance has helped Pakistan to withstand Soviet pressure aimed at forcing abandonment of Pakistan's steadfast support for the Afghan struggle. The Soviet threat to Pakistan is real, substantial, and has not abated. In fact, there are signs that Soviet pressure on Pakistan will increase in the coming year. Despite this pressure, Pakistan has stood firm in its opposition to the continued Soviet aggression in Afghanistan.

Second, our security assistance has been essential to developing and maintaining Pakistan's confidence in our security commitment. It has strengthened conventional defensive capabilities necessary to deter threats to Pakistan's territorial integrity.

Third, our assistance has permitted Pakistan to continue with the important work of economic development despite the enormous financial burdens of large defense expenditures in the face of the Soviet threat and the costs of hosting 2-3 million Afghan refugees. We have provided direct financial support to international organizations working on refugee programs in Pakistan, but the Pakistan government, by its own estimates, still must shoulder between 40-50 percent of the cost of maintaining the refugees.

Our bilateral economic assistance provides balance of payments support which eases the burdens on Pakistan's limited and strained financial resources. In addition, our project aid has already helped Pakistan to maintain self-sufficiency in wheat, and has contributed to decreased incidence of malaria. Most of our economic development projects, which were designed during the first few years of our current six-year program, are now entering the stage of full implementation. We foresee important contributions to economic development from these projects, particularly in the agricultural, energy, health and population sectors.

Senator Inouye: Does the Department of State project a requirement for additional assistance in the future?

Secretary Shultz: Our commitment to Pakistan is long-term. We foresee our assistance continuing after the existing program concludes in FY 1987, but it is premature at this point to speculate on the parameters of such a program.

OUT-YEAR FUNDING FOR THE MULTILATERAL DEVELOPMENT BANKS

Senator Inouye: Mr. Secretary, I read with interest that portion of your prepared statement which deals with the Multilateral Development Banks. In particular, I noted your discussion of the advantages of using the multilateral development banks to share the burden of providing aid.

I wish to make an observation and then invite your comments.

Curiously, I find that the 1988 column of the President's budget request shows no provision for funds for future replenishments. If the lack of a budget entry for 1988 is not to be taken as change in policy it must certainly be regarded as an extraordinary precedent. As a former budget director you know that, in previous budgets, outyear requests for multilateral development banks have always included projections of requirements for future replenishments.

Mr. Secretary, can you explain why the Administration is changing its policy towards the multilateral development banks?

Does the budget understate future requirements in order to show a reduction in foreign aid when there is every reason to believe more funds will be required?

Secretary Shultz: We have not changed our policy toward the multilateral development banks. The budget presentation document states that we are not budgeting for replenishments of certain MDB programs at this time. This is a time of severe budget stringency. All current programs, domestic and international, are being thoroughly scrutinized. This scrutiny extends to decisions we eventually make on the nature and extent of U.S. participation in future replenishments or capital increases for the MDBs. No such decisions have yet been made.

In recent years, we have followed a practice of straight-lining out-year figures based on our annual contributions to existing replenishments. We made no attempt to determine what precise levels would be needed for appropriate U.S. participation in future replenishments. Given the extraordinary budget circumstances we face this year, however, we have decided not to follow the practice of including what may be notional figures without first submitting the programs to a case-by-case review.

Negotiations begin shortly for new replenishments for nearly all the MDB windows in question. The reviews which I referred to above will be undertaken to establish U.S. positions on each of these replenishments. Consequently, by the time of next year's budget submission, if not before, we expect to have decided on a reasonable range for replenishment requests for some of the banks, which will then be reflected in the budget presentation.

As has been our practice, we plan to consult with Congress in the near future, to request your opinions on the issue of appropriate participation before establishing U.S. positions on upcoming replenishments. We look forward to having the benefit of your views as we enter into replenishment negotiations.

Senator, I appreciate your having noted in particular my remarks concerning the advantages of using the MDBs to share the burden of providing aid. I pointed out that the MDBs were able to sustain a lending program last year nearly seventeen times the amount of our paid-in capital levels. However, the kind of leverage I described works in reverse as well. Our current shortfalls in meeting our commitments are a case in point. Our $40 million shortfall in paid-in subscriptions to the Inter-American Bank means we are unable to release our guarantee for $849 million in callable capital as well. Because of IDB charter arrangements guaranteeing us 34.5 percent of capital subscription, this shortfall of paid-in and callable capital prevents the IDB from accepting additional subscriptions totalling $1.67 billion. As a result the regular lending program of the IDB has come to a halt.

Our delayed payment of $72.5 million to the Fund for Special Operations holds up other donor contributions of $103 million, while our Asian Development Fund shortfall of $91 million holds up a total of approximately $400 million from all donors. To assure an adequate flow of resources to for friends and allies from these and other MDBs we need Congress' attention to our FY85 supplemental request for $237 million. I would very much appreciate your support in getting this request funded as early as possible.

ISRAELI ECONOMY

Senator Inouye: Mr. Secretary, I am pleased again to read your assurances that the administration is prepared to provide "extraordinary assistance" in support of a comprehensive Israeli economic program that addresses the basic imbalances in the Israeli Economy.

As you know, last December the Chairman and I traveled to Israel to carry this message to Israeli leaders and to encourage their efforts to resolve the economic crisis.

What progress can you report?

Secretary Shultz: The Israeli Government concluded a new wage/price restraint agreement, or Package Deal with the Histadrut and Manufacturers Association in late January, and the agreement went into effect on February 5. Under Package Deal II the GOI agreed to cut government subsidies by $1.2 billion in three stages--$800 million in immediate cuts and $200 million in cuts in each of the following two months -- and to maintain the new reduced level of subsidization over the course of the eight month agreement. Prices on most subsidized goods were thus raised by approximately 25 percent in early February and additional price increases on foodstuffs and transport services will follow in February and March. Prices on non-subsidized goods can be adjusted a maximum of 3 to 5 percent each month, thus allowing some upward flexibility in prices. Workers are to receive modest lump sum payments in February, March and April for the subsidy cuts rather than adjustments through the COLA mechanism. Since its implementation, Package Deal II has run into major difficulties. The February CPI increase of 13.5 percent has spurred all parties to the agreement to reopen negotiations on the pricing provisions. Negotiations on modifications have just been completed, but it is still too early to know what the full impact of the changes will be.

The Israeli Cabinet approved on February 4 a series of new taxes which it hopes will ease pressure on foreign exchange reserves and increase revenues, including increases in the travel tax, increases in the import deposits on luxury goods and elimination of interest payments on short term patam accounts. Most of these measures require Knesset action and are not yet approved.

The GOI's new FY 85/86 budget provides for total spending of $23 billion, which is $1.8 billion below the rate of spending in the fourth quarter of CY 84, but is approximately the same level as originally planned in the original FY 84/85 budget. The uncovered deficit, or "monetary injection" projected next fiscal year would still be over 8 percent of GNP.

While a significant improvement, this deficit is still unsustainable and inconsistent with domestic and balance of payment equilibrium. Moreover, the projected deficit assumes that all budget cuts will be enforced and that all the government's recent revenue enhancement measures are eventually approved by the Knesset. This may in fact not be the case. The government's budget proposal has just been approved by the Knesset.

Finally, the Israeli Government is taking steps to introduce institutional reform. A budgetary reform law, which for the first time spells out legislatively both the need to, and mechanism for actively endorsing the government budget. That law was passed by the Knesset on March 26 along with the government's budget proposal. The GOI is also working on a law that would enable the Bank of Israel to pursue a more independent and restrictive monetary policy, and that law is expected to be introduced into the Knesset in the near future.

U.S.-ISRAELI ECONOMIC DIALOGUE

Senator Inouye: Are we nearing agreement on our economic package? Will the Administration be requesting an urgent supplemental for Israel this spring?

Secretary Shultz: As a result of Finance Minister Modai's recent visit to Washington, we decided to intensify our bilateral discussions. Herb Stein and Stanley Fischer accepted an invitation to travel to Jerusalem to discuss technical aspects of the GOI economic program and how it will be implemented. Considerable progress was made and our discussions are continuing with the hope of reaching an understanding on a comprehensive economic program and implementation process which would give the USG the assurances it needs to reach a decision on Israel's request for FY 85 supplemental assistance.

Senator Inouye: I appreciate your remarks, Mr. Secretary. I hope the administration will consult informally with the Congress before sending a formal request to the Congress. We may be able to make some useful suggestions.

QUESTIONS SUBMITTED BY SENATOR LEAHY

ARMS INTERDICTION IN EL SALVADOR

Senator Leahy: Mr. Secretary, in your FY 1986 Congressional presentation of your Security Assistance Program for El Salvador, your description of "Arms Control Considerations" states as follows:

"The proposed IMET and MAP programs will...improve El Salvador's ability to...interdict arms shipments... Acquisition of additional light attack aircraft, transport and observation helicopters, small patrol boats, infantry weapons, radio gear, and follow-on support for existing U.S.-origin equipment will increase the Salvadoran Armed Forces' effectiveness and will not represent the introduction of new military capabilities into the region."

How many arms shipments did El Salvador interdict in 1984?

Secretary Shultz: Salvadoran seizure and capture of guerrilla and illicit arms traffic occurred primarily through discovery of caches and interception of armed fighters inside El Salvador rather than interdiction efforts, as normally defined.

We do feel certain that improved Salvadoran efficiency has greatly interfered with the easy illicit arms supply methods that once benefited and were employed by the guerrillas. During the last six months, the enhanced efforts by the Salvadoran armed forces to cut off guerrilla supplies have been noticeably effective. The fact that the number of guerrilla attacks and operations noticeably fell in 1984 is perhaps the best way to measure the success of our efforts.

Senator Leahy: What did these arms shipments consist of, and in what manner were those shipments interdicted?

Secretary Shultz: The Salvadoran armed forces have seized or uncovered over a thousand rifles, primarily M-16s and AR-15 Israeli assault rifles, and Belgian-made FALs, since 1979. Several hundred were obtained in 1984. Within the last three months, hundreds of thousands of rounds of ammunition, mostly from Nicaragua and some Soviet Bloc countries, have been discovered in man-made caves. Information regarding those arms has often came from guerrilla defectors or captured insurgents.

Senator Leahy: Assuming the same rate of arms traffic as in 1984, how many more arms will these additional IMET and MAP programs enable El Salvador to interdict?

Secretary Shultz: As my previous answer indicates, the benefits of our proposed security assistance programs cannot be freely interpolated into some form of Salvadoran arms interdiction efficiency rating. There are many factors, quite apart from the materiel made available to the Salvadoran armed forces, that influence interdiction operations. Nevertheless, our assistance to date has clearly made it much more difficult for the guerrillas to get supplies. Supply routes, often along porous land borders and open water, remain difficult to monitor. Without transport and communications equipment, navigational aids and other materiel that enable nighttime operations, and complementary technical training, the Salvadoran armed forces will be unable to maximize opportunities to disrupt and cut off the supply lines to the guerrillas.

ELECTIONS IN EL SALVADOR

Senator Leahy: Mr. Secretary, on February 10, 1985, the New York Times reported that American diplomats in El Salvador had recently said that the U.S. Embassy did not favor a victory by Mr. Duarte's Christian Democratic Party in the coming legislative elections.

According to the article, the U.S. is afraid that if the far rightists do not gain a share of power they may re-activate the death squads.

Does the U.S. favor a victory by the right in the coming elections?

Secretary Shultz: As this Administration, the Department of State, Ambassador Pickering in San Salvador, and I have stated often in the past, the U.S. Government supports the free democratic electoral process in El Salvador, but does not support any particular party in that process. We favor democracy in El Salvador.

Senator Leahy: How much danger is there that the right will activate the death squads again if it fails to win a share of power?

Secretary Shultz: All sources which we monitor in El Salvador show a clear downward trend in right wing violence. President Duarte has made very clear, both in public and in private, his determination to reduce and eliminate political violence in El Salvador. Following the March 31 elections, I would expect the ability of the freely elected president and the newly elected National Assembly to combat political violence from both extremes to be strengthened. I cannot predict with any assurance the probable actions of people who have decided to live outside the law. I will predict the continued determination of the Government of El Salvador to deter, reduce, and eliminate such actions in the future.

SALVADORAN AIR STRIKES

Senator Leahy: How many air strikes by Salvadoran armed forces occurred in 1983? In 1984? In January and February of 1985?

Secretary Shultz: Any accounting of reasonable accuracy will require a detailed review of Salvadoran and U.S. records. We will provide this information as soon as possible.

DISPLACED PEOPLE IN EL SALVADOR

Senator Leahy: How many displaced people are there in El Salvador today?

Secretary Shultz: We estimate that there are approximately 550,000 people in El Salvador displaced by the war for reasons of violence and loss of livelihood. Of these, approximately 35,000 reside in displaced persons' camps run by the Salvadoran government, the Church, and a number of private relief organizations. The remainder appear to reside with friends and relatives.

Senator Leahy: What plans, if any, does the government of El Salvador have to resettle these people?

Secretary Shultz: We believe that most of the displaced persons in El Salvador consider themselves to be temporarily displaced and plan to return to their homes as soon as they are able. Another substantial percentage propose to settle permanently in the cities. In cooperation with the U.S. AID mission, the government of El Salvador offers a number of assistance projects to displaced people. Health care, low cost housing, and employment generation projects all provide assistance to the displaced people of El Salvador. Under the Health and Jobs for Displaced Persons project, a pilot relocation program is being initiated in FY 1985 for displaced persons who wish to resettle. Relocation services include assistance in obtaining land and resources to work Phase I cooperative farms and development of self-employment opportunities.

FY 86 TRAINING PROGRAM FOR EL SALVADOR

Senator Leahy: Mr. Secretary, in your FY 1986 Congressional presentation of your Security Assistance Program for El Salvador, your description of the International Military Education and Training Program (IMET), states as follows:

> "IMET will be used to provide...pilot training (rotary and fixed wing), officer training, development of technical skills necessary to operate and maintain U.S. equipment, and development of a training cadre."

How many pilots and officers will be trained and over what period of time?

Secretary Shultz: We plan to train 7 pilots and 126 officers in the FY 86-FY 87 timeframe. Course lengths vary from 79 weeks for undergraduate pilot training (UPT), which includes 22 weeks of English language training and a two-week course in faculty development.

Senator Leahy: Who will do this training? How many, if any, U.S. trainers will be used, and for what period of time?

Secretary Shultz: It is planned that U.S. instructors will provide this training at various locations throughout the U.S. during the FY 86/FY 87 time frame.

El Salvadoran students will be in a U.S. classroom situation, where several instructors will participate in training students from various countries including U.S. students. No additional U.S. instructors are anticipated to meet these requirements.

Senator Leahy: What will it cost to train each pilot and officer?

Secretary Shultz: It will cost $173,000 to train each fixed wing pilot and $84,000 for each rotary wing pilot. Other officer training will range from a low of $1,400 each for faculty development of ESAF instructors to a high of $16,000 each for Advanced Officer Professionalization. Following is a breakdown of the initial projection for the FY 86 IMET program for El Salvador:

Officer and Pilot Training
(includes 22 weeks English language training)

Pilots	Qty.	Weeks	Total Cost ($1,000)
Undergraduate Pilot Training	5	79	815
Rotary Wing	2	56	167
Other Officers (includes 22 weeks English language training)			
Air Command and Staff	1	44	17
Squadron Officer School	4	38	24
Aircraft Maintenance Officer	1	44	7
Aviation Safety Officer	2	37	16
U.S. Coast Guard Officer Candidate School, Search and Rescue	6	41	60
Amphibious Warfare School	1	62	16
Underwater Demolition Team/Seal	3	49	89
Engineer Off Basic	2	35	20
USASAALA-CONUS			
Combat Officer Refresher Training	60	11	219
Faculty Development	50	2	54
Military Intelligence	6	9	16

USE OF MAP FUNDS IN EL SALVADOR

Senator Leahy: Mr. Secretary, in your FY 1986 Congressional presentation of your Security Assistance Program for El Salvador, your description of the Military Assistance Program (MAP) states as follows:

"MAP will be used for unit and individual training, ammunition, spares, unit and individual equipment, fixed and rotary wing aircraft, and naval aircraft."

How many individuals will be trained, and at what cost per individual?

Secretary Shultz: It is anticipated that the majority of in-country training will occur at the National Basic Training Center (NBTC) and will consist of a 15 week Program of Instruction of basic training. Approximately 5,000 soldiers will be trained at the NBTC at an estimated cost of $1,200 per soldier.

Other training will vary from pilot training to various types of training provided by maintenance training teams that will be deployed to meet training requirements as they arise.

Senator Leahy: What types and in what quantities of individual and unit equipment, ammunition and spares will be purchased, and at what costs?

Secretary Shultz: Projected equipment requirements are as follows:

Equipment	Type	Quantity	Estimated Cost
light attack aircraft	A-37 aircraft	1	$ 300,000
utility	Hughes 500 helicopter	4	4,000,000
transport/observation helicopters	UH-1H	6	6,000,000
small patrol boats	33' patrol boats	6	3,400,000
infantry weapons	90mm recoilless rifles	as required	4,000,000
	M-16 rifles	"	
	M-60 machine guns	"	
	M-2 machine guns	"	
	60mm mortars	"	
	81mm mortars	"	
	105 mortars	"	
	40mm grenade launcher	"	
radio equipment	AN/PRC-77 radio	414	3,000,000
	AN/GRC-160 radio	30	
	DNV 630 secure voice	1,550	
	miscellaneous communications equipment	as required	
spares	vehicles	miscellaneous	4,800,000
	communications	"	3,000,000
	batteries	"	3,000,000
	armament	"	1,800,000
	learning equipment	"	1,100,000
	night vision equipment	"	500,000
	artillery	"	500,000
	cavalry vehicle	"	500,000

Senator Leahy: How many and of what types of fixed and rotary wing aircraft will be purchased, and at what costs?

Secretary Shultz: The projected purchases are as follows:

Fixed Wing	Rotary Wing	Number	Estimated Total Cost
A-37		1	$300,000
	H-500(OH-6)	4	$4 million
	UH-1H	6	$6 million

FOREIGN SUPPORT TO SALVADORAN GUERRILLAS

Senator Leahy: Mr. Secretary, you have often said that the guerrillas in El Salvador are receiving large amounts of weapons from Nicaragua, Cuba and the Soviet Union. Reports indicate, however, that the guerrillas, when attacked, do not have the fire power to stay and fight even for a short period of time.

If the guerrillas are receiving large amounts of arms from abroad, why are they unable to return fire once they are attacked by the Salvadoran Air Force?

Secretary Shultz: I think this is a question of tactics rather than arms. It is not a usual guerrilla insurgent tactic, either in El Salvador or anywhere else in the world that I am aware, to stand and fight regular armed forces once the regulars have concentrated superior fire power against them. In general, the guerrillas avoid becoming decisively engaged. The arms which they carry, and they are very well armed, are designed for quick raids and assaults rather than defense against aerial attack. I would note, however, that they do fire upon Salvadoran Air Force helicopters and C-47 AFSPs.

GUATEMALA: REQUEST FOR INCREASED FY 86 MILITARY AID

Senator Leahy: Mr. Secretary, according to human rights groups, Pope John Paul II, the Archbishop of Guatemala, and most recently our own Embassy in that country, human rights violations in Guatemala are widespread and mostly attributable to government security forces. Our Embassy reports that killings and disappearances increased significantly over last year.

Given this serious problem, how do you justify your request that we increase our military aid to Guatemala from $300,000 in FY 1985 to $10 million in FY 1986?

Secretary Shultz: Our FY86 aid request--$10 million FMS/C and $300,000 IMET--is identical to that of last year, and is meant to demonstrate support for and confidence in Guatemala's return to democratic government. The current Guatemalan government is fully committed to restoring democracy. General elections have been set for October 27, 1985. A new congress will take office on December 15, 1985, and a new president will be inaugurated on January 14, 1986. Free and fair elections were conducted last July for the Constituent Assembly. The elections on October 27, promise to give the voters a full range of political choice and the military has publicly announced that it will respect the voters' preferences.

The overall human rights situation has also improved dramatically since the 1981-83 period of violence, and these improvements were noted by Lord Colville, the UN Rapporteur for Human Rights, in his most recent report. Neither our Embassy's recent human rights report nor that of Lord Colville allege that human rights violations are mostly attributable to government security forces.

The guerrillas, trained and equipped in part by Soviet-bloc countries and directed from headquarters in Nicaragua, are continuing their effort to implant a totalitarian regime. The same day the electoral calendar was published, the guerrilla umbrella group known as URNG stated the moment was ripe for a new stage in the military struggle and called for intensified guerrilla attacks. The modest military aid we have requested would be used primarily for communications, training and spare parts, and will help the new civilian government during its critical first year in office.

FY 86 ECONOMIC SUPPORT FUNDS FOR GUATEMALA

Senator Leahy: Mr. Secretary, in your FY 1986 Congressional Presentation of your security assistance program for Guatemala, you say that "ESF (Economic Support Fund) assistance infusion will help the government address the macroeconomic problems that contribute to political instability. Local currency generated under ESF will be used for...development programs which address rural poverty, especially in the populous Indian highlands."

How specifically will these ESF funds help the Government of Guatemala address its macroeconomic problems?

Secretary Shultz: Guatemala's prospects for renewed real economic growth are at present constrained by a severe shortage of foreign exchange as a result of sluggish world prices for its traditional agricultural exports, depressed Central American markets for its industrial and consumer goods, and difficulties in establishing a workable exchange regime. The foreign exchange made available from our FY 1986 request will provide essential imports for Guatemala's productive sectors, especially producers of non-traditional exports which have the greatest potential for foreign exchange earnings. Increased foreign exchange liquidity and resumed economic growth will enable the GOG to more easily address needed fiscal and administrative reforms.

Senator Leahy: What conditions, if any, will be attached to the use of these funds which will ensure that these economic reforms are carried out?

Secretary Shultz: As we have done elsewhere in Central America, the United States will pursue a policy dialogue with the GOG in connection with the obligation and disbursement of ESF assistance to identify measures most likely to encourage growth and development in key sectors of the economy. Measures to be examined may address, for example, increased GOG commitment to small farmer and rural development in the Western Highlands, removal of anti-export bias in GOG policies and regulations and other enhanced incentives to export. A portion of ESF-generated local currency will be used to open domestic lines of credit for the private sector and to address credit policies and practices that constrain domestic savings and credit. We cannot predict at this time the specific conditions which may result from this policy dialogue.

Senator Leahy: If Guatemala fails to address its economic problems with the help of these ESF funds, what effect, if any, will this have on future U.S. aid to that country?

Secretary Shultz: The GOG has been very cooperative with the development objectives of our current economic assistance programs. We have no reason to suspect that the present GOG, or its democratically-elected successor, will not continue to work freely and closely with us on the development of policies to promote economic stabilization and sustainable, non-inflationary growth.

Senator Leahy: How much ESF money will be used for development programs in the Indian highlands?

Secretary Shultz: The bulk of local currency generations from ESF assistance will be used for development programs in the highlands and for development of non-traditional exports.

Senator Leahy: What development programs will be undertaken, and which, if any, of these programs will take place in the "model villages?"

Secretary Shultz: The program will benefit small farmers predominately located in the highlands through the provision of marketing assistance, farm inputs, extension services, credit, cooperative development, potable water systems, and roads. None of this assistance is planned for support of the "model villages" (Poles of Development Program). The formerly displaced persons who settle in model villages, however, have at least the same degree of need as other low-income persons in the highlands. In the future, we would not seek to exclude them from services and benefits provided by civilian ministry programs of broad, region-wide scope which we support; for example, programs of agricultural credit, health care and bilingual education.

HELICOPTER REQUIREMENTS IN GUATEMALA

Senator Leahy: Mr. Secretary, in your FY 1986 Congressional presentation of your Security Assistance Program for Guatemala, you say that the armed forces may purchase "several helicopters to provide needed mobility for medical evacuation and logistic support."

How many helicopters may be purchased, of what type, at what cost, and will any of them be supplied with weapons?

Secretary Shultz: It is projected that four UH-1H or Bell 212 helicopters at approximately $1 million each may be purchased.

Senator Leahy: If they will carry weapons, what type and how much will these weapons cost?

Secretary Shultz: These helicopters will not be supplied with weapons. They are intended for utility purposes such as transport of supplies and equipment, medical evacuation, and delivery of humanitarian supplies to the Highland Area of Guatemala.

ASSISTANCE TO THE PHILIPPINES

Senator Leahy: Mr. Secretary, you are requesting $195 million in aid for the Philippines in FY 1986. That is $15 million more than the $180 million we are obligated to pay this year under our 1983 base agreement with that country.

I understand the strategic importance of our base agreement with the Philippines, but is this additional $15 million really necessary? Is our policy of supporting democracies working so well in that country that we should give that government a $15 million bonus next year?

Secretary Shultz: Our proposal is aimed in part at making up some of the shortfall in military assistance resulting from last year's Congressional action, when $45 million in proposed FMS for FY 85 was shifted to ESF. The Presidential "best efforts" commitment to provide $900 million in security assistance in the five-year period beginning in FY 85 specifies the following breakdown: $125 million MAP, $300 million FMS credits and $475 million ESF. With military aid reduced to $40 million in FY 85, we need to begin to increase such aid over the base-line level of $85 million if we are to fulfill the President's commitment during the five-year period.

Equally important in determining our military assistance request is the Armed Forces of the Philippines' concrete need for such assistance if it is to respond effectively to a growing armed communist-led insurgency. FY 85 military assistance will be almost totally absorbed by operations and maintenance costs in support of existing inventory. Serious shortcomings in maintenance, logistics, transportation, communications and training can only be overcome through adequate levels of foreign assistance.

We also believe that enhanced military assistance will strengthen our leverage to promote military reform. The past few months have seen important, if still tentative, steps toward military reform:

-- a new system to police military abuses;

-- some reorganization of military command and deployment to deal with the insurgency;

-- a more realistic set of military procurement priorities focussing on basic mobility and communications items needed against the insurgency.

Our military assistance request is made in the expectation that this progress will continue and expand.

Finally, we have proposed the maintenance of ESF at the base-line level of $95 million called for by the bases-related understanding because of the severity of the economic situation faced by the Philippines. Given the Philippines' economic prospects for the next few years, it is difficult to square anything less with our interests in that nation's economic recovery.

PROSECUTION OF SALVADORAN OFFICERS FOR HUMAN RIGHTS ABUSES

Senator Leahy: Mr. Secretary, according to articles in this week's Washington Post and New York Times, El Salvador's judicial system remains crippled by "intimidation, corruption, and mismanagement," preventing the prosecution of military officers implicated in political murders.

How many prosecutions of military officers accused of human rights violations have there been since President Duarte's election?

Secretary Shultz: Information provided by our Embassy in San Salvador indicates that in 1984 at least 15 officers were dismissed from the armed forces on suspicion of having committed criminal offenses. Their cases were referred to the civilian courts. These cases are part of the process in which the Salvadoran government is engaged to remove officers and enlisted men who commit abuses. In cases in which suspicion of wrongdoing exists but sufficient evidence to take the case to the courts is absent, the government has responded by removing the suspected individuals from their positions and, in some cases, transferring them to posts abroad.

In our view, those guilty of abuses, including military officers, should be held accountable for their actions and prosecuted according to Salvadoran law. To date the judicial system has failed to deal effectively with bringing many of those responsible for human rights abuses to justice in part because, as you point out, it is subject to intimidation along with corruption and mismanagement. However, the failure to solve these crimes and bring their perpetrators to justice is also the result of the absence of technical and professional capabilities needed to deal with the magnitude of both political and non-political lawlessness aggravated by the conflict within the country. There is no doubt that the fractures in the country's institutions have provided criminal or errant government officials opportunities to act as they saw fit. There is also no doubt, however, that the strengthening of governmental institutions has gradually limited the ability of those officials to independently contravene the policies of the national government. U.S. support for judicial reform in El Salvador (and in other countries facing similar problems) is expressly designed to strengthen the ability of the judicial system to successfully investigate and prosecute crimes, including those perpetrated by either current or former officials.

Senator Leahy: How many military officers have been tried and convicted of human rights violations since Mr. Duarte's election?

Secretary Shultz: We are not aware of how many of the cases referred to the civilian courts in 1984 have resulted in convictions. Criminal cases in El Salvador frequently take as many as three years to reach the trial stage. It would not be unusual, therefore, if none of the cases which resulted in dismissals in 1984 have yet resulted in convictions.

INCREASES IN FOREIGN AID

Senator Leahy: Mr. Secretary, Foreign Military Assistance grants have grown by over 600 percent since 1980. In your foreign aid request for FY 1986, you are requesting an 18 percent increase in military aid over last year. Can we continue to increase our foreign aid at this rate when we are cutting every domestic program in sight?

Secretary Shultz: It is true that military assistance has grown markedly since 1980, particularly in the case of Military Assistance Program (MAP) grants. However, I would point out two facts: First, you will recall that previous Administrations were attempting during the 1970's to phase out MAP grants and rely more on the FMS credit program. The reason for this was the perception that cost-of-money loans would encourage developing nations to reflect more carefully on the real economic costs associated with their defense expenditures. Even though I would judge that this was a wise approach, in many cases increased security requirements during the period resulted in aggravated external debt problems. Since 1981, this Administration has recognized this problem by placing renewed emphasis on the grant program and by introducing a concessional FMS program under which softer terms are available to finance military purchases.

My second point is that, despite this conscious shift in philosophy, overall foreign assistance levels have nevertheless remained constant as a proportion of total budgetary expenditures. In 1980, foreign aid represented 1.5 percent of total budget authority. Today the share remains the same. Indeed, if one looks at a longer time frame, foreign assistance outlays as a percentage of total outlays have been steadily declining, from 4.5 percent in 1962 to 1.5 percent in our proposed FY 1986 budget. Therefore, while it is true that we are changing the mix of assistance to reflect greater concessionality in military aid, overall foreign assistance has been kept at a constant, and relatively small, share of total budget aggregates. As the President noted in his State of the Union message, dollar for dollar, foreign assistance continues to be an excellent investment for the United States.

HONDURAS: ECONOMIC AID

Senator Leahy: Mr. Secretary, you have requested $80 million in economic aid for Honduras for FY 1986. According to A.I.D., major economic reforms are essential if that country is to have any hope of economic growth. So far, Honduras has successfully resisted pressure from the United States to adjust its economic policies.

What conditions, if any, does the Administration intend to attach to this aid?

Secretary Shultz: On March 25, an agreement was signed in which the GOH committed itself to carry out several specific measures which we view as important steps toward a comprehensive economic stabilization program. The specific measures include tariff reform, implementation of measures to promote Central American trade, reduction of public sector management of Honduras' timber marketing activities, divestiture of public sector enterprises and restructuring of public debt instruments.

Negotiations with the GOH continue regarding appropriate future economic adjustment measures which would lead to disbursement of the balance of presently appropriated Economic Support Funds and the $80 million of ESF requested for FY-86. We will continue to seek further structural economic adjustments to improve Honduras' ability to earn foreign exchange, reduce the GOH fiscal deficit, and increase private sector economic participation.

Senator Leahy: What assurances do we have that this $80 million will result in the necessary economic reforms?

Secretary Shultz: We believe that the structural economic adjustments to which the GOH recently has committed itself are sound initial steps in a process that will lead to a comprehensive economic stabilization package.

OUT-YEAR FUNDING FOR THE MULTILATERAL DEVELOPMENT BANKS

Senator Leahy: Mr. Secretary, in your prepared statement before the Senate Budget Committee on February 19, 1985, you note that the multilateral development banks have a "crucial role to play in advancing world-wide growth and development" and that you consider our participation in them "a necessary complement to our bilateral assistance policy." To this end you are requesting $1.3 billion in FY 1986 for these institutions and a FY 1985 supplemental of $237 million.

Nonetheless, in the 1988 column of the President's budget request, it appears that the Administration does not intend to provide funds for future replenishments of these particular institutions.

Can you explain why the Administration is changing its policy towards the Multilateral Development Banks?

If lack of funds does not represent a change in policy, the failure to provide outyear funds in the budget request is certainly an extraordinary precedent. In previous years, the Administration's outyear requests for the MDBs always included projections of future replenishment needs. Is it the Administration's intention to understate future budget requirements so that it will artificially appear as if the foreign aid requests are shrinking when you know that you will be requesting more funds in the future?

Secretary Shultz: We have not changed our policy toward the multilateral development banks. The budget presentation document states that we are not budgeting for replenishments of certain MDB programs at this time. This is a time of severe budget stringency. All current programs, domestic and international, are being thoroughly scrutinized. This scrutiny extends to decisions we eventually make on the nature and extent of U.S. participation in future replenishments or capital increases for the MDBs. No such decisions have yet been made.

In recent years, we have followed a practice of straight-lining out-year figures based on our annual contributions to existing replenishments. We made no attempt to determine what precise levels would be needed for appropriate U.S. participation in future replenishments. Given the extraordinary budget circumstances we face this year, however, we have decided not to follow the practice of including what may be notional figures without first submitting the programs to a case-by-case review.

Negotiations begin shortly for new replenishments for nearly all the MDB windows in question. The reviews which I referred to above will be undertaken to establish U.S. positions on each of these replenishments. Consequently, by the time of next year's budget submission, if not before, we expect to have decided on a reasonable range for replenishment requests for some of the banks, which will then be reflected in the budget presentation.

As has been our practice, we plan to consult with Congress in the near future, to request your opinions on the issue of appropriate participation before establishing U.S. positions on upcoming replenishments. We look forward to having the benefit of your views as we enter into the replenishment negotiations.

DIALOGUE IN EL SALVADOR

Senator Leahy: Mr. Secretary, both you and President Reagan have said that the aim of our policy in El Salvador is to bring about a diplomatic solution to that country's civil war.

Are we supporting President Duarte in his efforts to negotiate with the guerrillas?

Secretary Shultz: We are supporting publicly and privately the dialogue process initiated by President Duarte in his speech before the United Nations last October.

Senator Leahy: What specifically are we doing to support those efforts?

Secretary Shultz: We have reiterated our support for President Duarte's dialogue initiative several times. We have refused feelers for direct talks from the FMLN-FDR, believing that the channel opened by President Duarte at La Palma last October is the appropriate one for the resolution of the conflict in El Salvador. We support the democratic process in El Salvador and reinforce our commitment to continue aid to the Salvadoran government, thereby encouraging the guerrilla left to negotiate seriously.

Senator Leahy: What steps has the United States taken to encourage the right-wing in El Salvador to support the peace talks?

Secretary Shultz: Our strong public support for the dialogue and our support for a democratic process in which all groups and ideas can compete for electoral support is well understood by both the left and the right. We are speaking with the same voice to all groups.

EXPENDITURES FOR SALVADORAN JUDICIAL PROTECTION UNIT

Senator Leahy: Mr. Secretary, I have received a report that last year we spent $234,000 to train 60 Salvadoran prison guards to protect witnesses at the trial of the men who murdered the four American churchwomen. I have also been told that this "judicial protection unit" was disbanded after the trial and has not been used since.

Is it true that it cost us $234,000 to train 60 guards to protect witnesses at one trial?

Secretary Shultz: In working with the Salvadoran Government to strengthen the administration of justice, it was recognized that there was a need to be able to protect participants in trials from intimidation. There was an obvious need to have in place such an ability before the trial last May of the accused in the churchwomen case. Judge Harold Tyler's December 1983 report on the case strongly recommended this. Early in 1984, the Salvadoran Ministry of Justice provided the nucleus of 60 agents--recruited from the ministry's guard force--to receive training at the Federal Law Enforcement Training Center at Glencoe, Georgia. This group of agents provided security during the trial of the former National Guardsmen accused of the churchwomen murders. That trial was held without incident, those accused were convicted and trial participants--judge, jurors and witnesses--are safe and have not been threatened. In my view, the investment made by the U.S. in this case was a completely justifiable expenditure of public funds. I would point out, however, that it is not correct that the U.S. Government invested $234,000 solely for the churchwomen case trial. Those funds went for training and equipment which were not lost at the end of that trial.

Senator Leahy: Has the unit been used since the nuns' case?

Secretary Shultz: The judicial protection unit has not been used since the churchwomen case trial. The administrative framework for implementing this effort as a permanent feature of the judicial process is still being developed by the Ministry of Justice. However, the U.S.-Salvadoran grant agreement on the administration of justice envisions creating a permanent judicial protection unit, and we are continuing to work with the Salvadoran government to realize this goal. It is important to bear in mind that this approach is entirely new for El Salvador.

Senator Leahy: What is the status of the unit today?

Secretary Shultz: The agents who received training remain at the Justice Ministry and the equipment provided remains in Salvadoran government inventories. Thus, the nucleus of trained personnel and equipment is in place, and the Salvadoran government will be able to establish this unit for the purposes it was originally intended once the current organizational hurdles have been overcome. We expect the Duarte administration to follow through on the creation of this unit.

QUESTIONS SUBMITTED BY SENATOR DECONCINI

Senator DeConcini: Mr. Secretary, I recently returned from Ethiopia where I spent some time examining the indescribable disaster affecting that nation. I was impressed by the effects that our aid is having in helping the famine victims, and, indeed, I support a higher level of assistance than the Administration has requested. I am very much concerned, however, about the long term role that we can or should play in providing development aid to Ethiopia.

FAMILY REUNIFICATION OF ETHIOPIAN JEWS

Senator DeConcini: Have the Ethiopians given us any indication that they might be willing to cooperate on issues of specific U.S. interest such as family reunification of Ethiopian Jews?

Secretary Shultz: In response to inquiries from visiting Congressional delegations, Ethiopian government officials have indicated to them a willingness to facilitate the emigration of Ethiopian Jews through specific arrangements such as a family reunification program or the establishment of a government office to handle travel applications from the Jewish community. However, when our embassy followed up these contacts to encourage the Ethiopian authorities to implement such programs, they were told this was "impossible." The Ethiopians have strongly protested international support for the resettlement of Ethiopian Jews from Sudan, comparing such efforts to mass "kidnappings."

DEVELOPMENT ASSISTANCE TO ETHIOPIA

Senator DeConcini: Given the vast ideological differences between the U.S. and the Ethiopian governments, what are your thoughts regarding U.S. funded long range development aid programs in Ethiopia? Should such programs be undertaken in Ethiopia without some commitment on their part on human rights or other political issues?

Secretary Shultz: First, we need to point out that the U.S. Government is precluded by law from providing non-emergency economic assistance to Ethiopia, pending a resolution of outstanding expropriation claims and debts. Should these restrictions be removed, we would still have to take a careful look at how we could contribute to Ethiopia's long-term development given Ethiopia's current economic policies. The objectives of our aid programs in Africa and throughout the third world are fundamentally incompatible with the structure and goals of Ethiopia's economic strategy. This is not merely a question of ideological differences, and is a real issue not only for us but for other Western donors and the World Bank as well. We do not believe that Ethiopia's economic planning will successfully stimulate agricultural production or achieve a healthy, sustained economic growth. Beyond that, we would have serious reservations about the social impact of government plans, such as the emphasis on collectivized farming and forced population resettlement. Before undertaking development projects in Ethiopia, we would need to be satisfied that the programs were both economically effective and contributed to the welfare of the population.

ETHIOPIAN SUPPORT FOR RELIEF EFFORTS

Senator DeConcini: Given that at least some of the disastrous effects of the drought could have been alleviated by the Ethiopian Government itself through such policies as better resource allocation, is the Ethiopian Government now doing all it can to help its own people?

Secretary Shultz: We have noticed a marked improvement since last September in the government's cooperation with the donor community in carrying out relief programs. For example, the Ethiopians have allocated trucks from the military to distribute U.S. food aid within Ethiopia, and humanitarian assistance is given higher priority for discharge at the ports. While we are pleased at these developments, there are still serious problems. We think the government could do more to increase the effectiveness of relief programs. Scarce transportation resources have been diverted to the government's resettlement program. We think the attention should be focussed on emergency aid to famine victims where they are presently located, for which transportation remains a serious constraint. We are also concerned about the limited access to people in contested areas of northern Ethiopia, many of whom have been forced to walk several hundred miles to Sudan in order to secure food. We realize this is an especially sensitive political issue for the Ethiopian Government and presents logistical problems as well. It will require careful planning to assure that aid to northern areas is not diverted to the military forces of either side. We are working with the Ethiopian Government to develop programs which can address this need. At the same time, we have made it clear that we cannot stand by and let the substantial drought-affected population of the north be denied critical food aid. Thus we are working with the UN and with private humanitarian organizations as well to find solutions to this problem.

THE SOVIET UNION AND THE ETHIOPIAN FAMINE

Senator DeConcini: What is the Soviet Union doing to help the Ethiopian famine victims? Have the Soviets ever commented on our own assistance to Ethiopia or have they ever offered to cooperate in this effort?

Secretary Shultz: The Soviet response to the Ethiopian famine crisis has underscored the limited nature of Soviet economic assistance in the developing world in general. The Soviet relief effort in Ethiopia is particularly paltry by comparison to that of the Western donors. Although Moscow has provided nearly $4 billion in military aid to Ethiopia since 1977, relief aid this year is only about $7 million, including 10,000 tons of rice, baby food, medicine, trucks, and air transport. In contrast, the US contribution thus far in FY 1985 has exceeded $140 million.

Both the Soviets and the Ethiopians have in their media exaggerated the impact of the very modest Soviet contribution to Ethiopian famine relief and several recent Soviet loan agreements for development projects in Ethiopia. In contrast, both the Soviets and Ethiopians have played down our own contribution and that of other western donors. The gap between their propaganda and reality is enormous. It has, however, not deterred us in our continuing efforts to deal with the brutal and tragic reality of the Ethiopian famine.

As you know, we are precluded by various restrictions in our foreign assistance legislation from extending development aid to Ethiopia. Apart from that, we have serious reservations about the contribution we can make to Ethiopia's centralized, collectivized agricultural production. Our aid program goals in Africa, instead, promote the development of the private sector along free market lines.

Last year Chairman Chernenko, in a press interview, cited famine relief in Africa as an area of potential US-Soviet cooperation. We have subsequently had several private diplomatic exchanges with the Soviets, but unfortunately the Soviets have demonstrated no interest in pursuing the subject.

AFRICA FAMINE: LESSONS LEARNED

Senator DeConcini: The horrors of the African famine are a type of suffering of a level that you really can't believe it until you see it. Unfortunately, massive hunger has not been a stranger to the Third World.

What have we learned from our experience in responding to the famine in Africa and how can we apply these lessons in dealing with similar situations both in Africa and in other parts of the world?

Secretary Shultz: One of the most significant lessons learned from the present Sub-Saharan African food crisis is that the world community can respond on a very rapid basis to unexpected food needs. To date, over ninety percent of the estimated food aid needs for Sub-Saharan Africa have been pledged, and the remaining ten percent has been promised. However, the pledging of food alone does not satisfy the critical food needs of Africa, and currently, close attention has been given to the delivery of food to insure that needed food arrives and is distributed on a timely basis.

One of the most difficult aspects of responding to emergency needs is that, by definition, the needs are unexpected thus there is little or no lead time to prepare for the unprecedented increase in demand for food imports.

In Africa, where the limited availability of foreign exchange make commercial purchases next to impossible for many nations, the only avenue for relief lies in food aid.

It should be noted that the provision of food aid - emergency or otherwise - does not contribute toward a long term solution. Therefore, it is important that the donor community give adequate attention to developmental considerations in order to allow for the growth of self-reliant governments in former chronic food recipient nations.

AFRICA FAMINE: RESPONSE TIME AND PREPOSITIONING

Senator DeConcini: How can we improve our response time to this type of emergency? Is the pre-positioning of food a useful or realistic option?

Secretary Shultz: By definition, emergency requirements are difficult to plan for. However, to the extent emergency planning can be effectively done, there are several methods that can be used to reduce the burden of unexpected needs. The pre-positioning of food, both in the United States and in foreign grain storage facilities is a useful tool in making food available on a timely basis. In addition, the donor community is considering processed foods since prepositioning offers extra time-saving with this type of commodity.

Another important factor in the expeditious handling of an emergency situation is the early identification and quantification of emergency needs. Last year, during the 84/85 crop year, we were quite successful in identifying potential trouble areas prior to absolute confirmation brought about by the harvest. In recent months, we have begun melding our on-the-ground reporting with satellite information thus enabling us to get the earliest possible weather and climatic information and then using our extensive field resources to provide the critical back up data necessary to make an accurate assessment of the situation.

CHILE HUMAN RIGHTS

Senator DeConcini: I have been increasingly concerned about the human rights situation in Chile. It is my understanding that early last month the Reagan Administration instructed its representatives to abstain on an Inter-American Development Bank loan to Chile on the basis of its increasing human rights problems, an action that is somewhat unusual for this Administration. Do you foresee any changes in the human rights situation in Chile in the near future?

Secretary Shultz: The 1984 human rights report for Chile shows a mixed record for Chile in 1984, with specific progress early in the year in certain areas, including on judicial independence, in the return of exiles, and in freedom of speech and association, and a worsened situation by year's end.

In response to an emerging terrorist problem the GOC took measures to restrict freedom of speech and assembly, and, on November 6, the GOC declared a State of Siege. Under the State of Siege, the government detained over 8,000 people, at least temporarily, opened a detention camp where 421 people were sent without trial, has closed down or restricted opposition media, has expelled foreign clergy involved in human rights activity, censored the Catholic Church's religious activities and selectively arrested various political and labor leaders for their political views.

The Chilean Government has begun to release most of those persons held under indefinite detention. According to the Government, there are currently 269 people at the Pisagua detention camp, down from 421. There are 10 persons at the Conchi detention camp and one other person held elsewhere.

The 90 day sentences of most of those sent into internal exile have been allowed to expire and these persons have been permitted to return to their places of residence. There are currently 39 people in internal exile, down from 257.

Restrictions on the press have not been lifted.

Restrictions on political meetings remain in force.

Curfew restrictions have been modified and eased since first imposed in November. These restrictions vary from province to province.

As for the future, we hope to see human rights improvements, and have made our views on this known to appropriate GOC officials.

Senator DeConcini: What other steps can the U.S. take to influence the government of Chile on the human rights issue?

Secretary Shultz: We have expressed our concerns about the human rights situation in public statements, including statements by the President and myself. We have met privately with representatives of the GOC, and conveyed our concerns. The focus of our diplomatic efforts, however, is to reestablish a dialogue in Chile. Progress on the transition will relieve tensions and, we believe, lead to an improved human rights environment. Our policy must be carefully balanced. We have no intention of making the Chilean government fair game for the left, thereby increasing the intransigence of the left and making a moderate solution more difficult. Nor do we wish to appear as supporters of the Chilean Government, thereby increasing intransigence on the other side. A tilt in either direction would work against achievement of our primary goal, a resumption of negotiations leading to an orderly transition to democracy. Our policy must be even-handed.

SUBCOMMITTEE RECESS

Senator SPECTER. Mr. Secretary, on behalf of the subcommittee, we thank you very much for giving so much time. We very much appreciate your attendance, and that concludes our hearing. The subcommittee stands in recess until Tuesday, March 12, when we will receive testimony from Ambassador Jeane Kirkpatrick.

(Whereupon, at 11:50 a.m., Thursday, March 7, the hearing was recessed to reconvene Tuesday, March 12.)

FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1986

WEDNESDAY, MARCH 13, 1985

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 2 p.m., in room S-126, the Capitol, Hon. Robert W. Kasten, Jr. (chairman) presiding.

Present: Senator Kasten.

DEPARTMENT OF STATE

SECURITY ASSISTANCE, SCIENCE AND TECHNOLOGY

STATEMENT OF WILLIAM SCHNEIDER, JR., UNDER SECRETARY OF STATE FOR SECURITY ASSISTANCE, SCIENCE AND TECHNOLOGY

INTRODUCTION OF WITNESS

Senator KASTEN. The subcommittee will come to order.

Today, we will receive testimony from the Honorable William Schneider, the Under Secretary of State for Security Assistance, Science and Technology, together with supporting testimony from General Philip Gast, Director of the Defense Security Assistance Agency, on the administration's budget request for security assistance programs.

Secretary Schneider and General Gast, we welcome you here today. Before beginning the hearing, I would like to express our appreciation. I know I am speaking for both sides of the political aisle, even though we are not all represented here, for your assistance and the work that you have been doing. We look forward to working with you again this year.

PREPARED STATEMENT

As you know, Mr. Secretary, your statement will be inserted in the record. I understand that you have a brief summary to make. Following that, General Gast would like to make a brief summary as well, then we will proceed to questions.

I would also like to say that the Budget Committee is in markup right at this minute, and I would appreciate if we could move through this relatively quickly because there are votes occurring in the Budget

Committee. We will be submitting most of our questions to be answered for the record.

I would like for you to go ahead, Mr. Secretary.

Mr. SCHNEIDER. Thank you, Mr. Chairman.

[The statement follows:]

PREPARED STATEMENT OF WILLIAM SCHNEIDER, JR.
UNDER SECRETARY OF STATE
SECURITY ASSISTANCE, SCIENCE AND TECHNOLOGY

INTRODUCTION

Mr. Chairman, Members of the Committee, I am pleased to appear before you today to discuss the Administration's proposed FY 1986 security assistance program. As the Secretary indicated to you last week in his overview of the entire program, foreign assistance is a prudent investment abroad. It assists us in the effective implementation of our foreign policy objectives, promotes global economic and political freedom, and reflects the humanitarian concerns of the American people. Foreign assistance is also one of the most cost-effective means at our disposal for enhancing our national security.

A year ago I testified before you on the three most difficult but vitally important issues facing our security assistance program at that time: the Soviet and Cuban backed insurgency in Central America, the acute tensions in the Middle East, and the critical and growing debt burdens of many developing countries. There have been, and will be, no easy, quick solutions to these problems, but I can assure you today that we have made progress in each of these critical areas.

First, looking at the area closest to home, there is definite and sustained progress toward democracy and stable political processes in Central America and, indeed, throughout the Hemisphere, notwithstanding the continuing efforts of Soviet and Cuban-backed insurgents to undermine the political and economic fabric of Central American governments. El Salvador now has a democratically elected government whose legitimacy is recognized by its own populace and by the world's democratic community. There has been a sharp decline in political violence in that country and a growing acceptance of democratic institutions. Bolstering these positive political developments, the Salvadoran military has demonstrated an increasing professionalism and ability to work within the guidelines established by President Duarte; there has also been a turnaround in their ability to conduct counter-insurgency operations.

Elsewhere in Central America progress has been equally impressive. In neighboring Honduras, new Presidential elections are scheduled for later this year. Panama and Belize have both recently held democratic elections. Constituent Assembly elections in Guatemala eight months ago were widely accepted as honest and open. Costa Rica maintains its strong democratic traditions. U.S. economic and security assistance has been, and will continue to be, vital for the continuation of this progress in the region, especially in the face of Nicaragua's Soviet and Cuban backed destabilization efforts.

Second, there have also been modest positive developments in the quest for peace between Israel and its neighbors. The Israeli offer last September to negotiate with Jordan without preconditions and the recently initiated phased withdrawal of Israel's armed forces from Lebanon have helped create an atmosphere more conducive to progress toward negotiations. Likewise, the resumption of diplomatic relations between Jordan and Egypt -- two Arab states which support a peaceful settlement -- is a promising development. Israel's Prime Minister has reacted favorably to Egyptian President Mubarak's proposal for direct negotiations between Israel and a Jordanian-Palestinian delegation. We will discuss President Mubarak's ideas with him further. We support all positive steps to negotiate Arab-Israeli differences.

U.S. security assistance has not been the only contributing factor in these two vital areas of the world. It has, however, played an important role. Because the Administration and Congress, working together, have been able to increase the levels of our security assistance during the past few years, we now have on-going effective programs that are beginning to show clear signs of success. I would like to add here, Mr. Chairman, that your personal efforts and those of many members of this Committee in securing adequate security assistance funding levels have contributed significantly to this success. We are unquestionably on the right track; we must continue to press the advantages already gained; we must not let up now.

Third, last year I also described to you the critical debt service burden facing many countries around the world. Although much remains to be done, we believe the worst of the debt crisis is behind us. For example, in Latin America, where fully half of the LDC debt problem is concentrated, there has been a significant improvement in the region's current account deficit and economic growth has returned to the region as a whole. Though much of the credit must go to the difficult adjustment efforts undertaken by many of these countries, the U.S.-led worldwide economic recovery clearly has been a major benefit in spurring this turnaround.

The positive Congressional response to the FY 1985 Administration request to place Foreign Military Sales (FMS) financing on-budget has made possible the initiation of a modest, but much-needed concessional FMS financing program. Along with increases in MAP grants, concessional FMS lending is an important U.S. effort to help security partners who often face either more debt or heightened military vulnerability. This flexibility has permitted us to tailor comprehensive security assistance programs which take into account the economic circumstances of needy friends and allies.

Even under the best of economic and budgetary circumstances, however, there are limits to the amount of financial assistance which the United States can or should provide to our friends and allies. This year, as the President has made clear, we must deal with the structural deficit in the federal budget in order to maintain a healthy U.S. financial system and continued non-inflationary economic growth. At the same time, we must not abdicate our global responsibilities.

Security assistance is especially important in the pursuit of some of our key foreign policy goals as well as in meeting national defense imperatives. For that reason the security assistance proposal, when an Economic Support Fund (ESF) request for Israel is made, will be greater than the amount enacted for FY 1985. As the Secretary testified before the Senate Budget Committee, however, these increases are more than offset in other parts of the overall International Affairs budget function 150. These security assistance increases reflect a reordering of priorities within the International Affairs budget function, but a decrease in the overall level of federal activity in the international area will still result. As I will demonstrate later in my testimony, we have prepared a security assistance proposal that represents the minimum level of resources necessary to meet our foreign policy/national security needs.

FY 1986 PROGRAMS AND THEIR VALUE

Security assistance contributes directly to the security of the United States and at the same time lowers defense costs. It:

-- enables our friends and allies to obtain military equipment and training to defend their independence and territorial integrity, permitting them in some cases to undertake responsibilities which otherwise we ourselves might have to assume.

-- furnishes tangible evidence of our support for the independence and territorial integrity of our friends and allies, thus deterring possible aggression and promoting regional stability.

-- contributes to the broad cooperative relationships which permit the presence of U.S. facilities or access by U.S. forces to host country facilities in time of threat to mutual interests, thereby reducing the cost of U.S. defense.

-- provides a means of demonstrating U.S. constancy and willingness to stay the course in support of nations whose survival constitutes a basic purpose of our foreign policy.

-- helps alleviate the economic and social distress that breeds domestic violence and invites external subversion -- particularly important for countries whose necessary military expenditures would otherwise impose severe strains on their economies.

-- and also provides to the U.S. and foreign buyer the benefits of consolidated planning and economies of scale.

The FY 1986 security assistance program was carefully developed through an extensive interagency process which thoroughly reviewed each program. We first identified and assigned relative priorities to our key strategic objectives and coordinated them with foreign policy and defense planning. Then we designed a security assistance program and integrated it with development assistance priorities. The FY 1986 program has been crafted in accordance with the Administration's extraordinary effort to restrict budget growth. At the same time, each recipient country has been provided with the specific mix of program resources which we believe will best meet its needs.

As a result of this process, for FY 1986 we are requesting $9.5 billion in security assistance -- $6.7 billion in military assistance programs and $2.8 billion in ESF assistance. This ESF request level, of course, does not contain an amount for Israel. Once this amount is included, the ESF level will, as the Secretary has testified before me, undoubtedly exceed the ESF level appropriated in the FY 1985 CR.

Military Assistance Programs. An $860 million increase in Foreign Military Sales (FMS) credits and grant military assistance over the levels in the FY 1985 Continuing Resolution can largely be accounted for by increased levels for only four countries: Egypt, Israel, the Philippines and Turkey. All four are friends with whom we have close security cooperation. The latter two countries are base rights countries whose armed forces are in dire need of modernization or improvement.

For our largest security assistance program -- the Foreign Military Sales (FMS) credit program -- we are requesting $5.7 billion for programs in 27 countries. These programs enable eligible countries to purchase U.S. equipment, spare parts and training. With the exception of a few country programs which were raised in limited amounts, virtually all of the increase in the FMS financing program level over FY 1985 is for Egypt and

Israel: an increase of $125 million (to $1.3 billion) for Egypt, and of $400 million (to $1.8 billion) for Israel. The $3.1 billion request for these two countries is almost 55 percent of the total FMS credit package. Twelve percent of the FMS program, or $651 million, is to be devoted to concessional financing for 15 countries. $1.9 billion, or almost 34 percent of the total FMS program, will be in the form of Treasury rate financing for 16 individual country programs.

In the Military Assistance Program (MAP), we are requesting $949 million for 36 country and regional programs. This is a 15 percent increase over the FY 1985 CR level and represents a continuing effort to provide more grant assistance to the poorer countries. Providing grant funding for defense articles and services, MAP is vital to financially strapped countries which otherwise either would have to forego providing for their defense or would have to divert scarce resources from economic development needs.

We consider the $65.7 million requested for the International Military Education and Training (IMET) program to be one of the most important, albeit one of the smallest, parts of our security assistance budget. These grants not only provide needed professional military training, but they also represent a low-cost method of providing a valuable channel of communication and influence with an important sector of a country's leadership, especially in the Third World, exposing trainees to such U.S. values as respect for democracy and observance of human rights.

Economic Support Fund. The ESF program at $2.8 billion reflects the continuing U.S. concern for the economic problems faced by our friends and allies. This form of economic, rather than military, assistance is provided on a grant or loan basis to countries selected for their special political and security interest to the U.S. It comprises approximately 30 percent of the total FY 1986 security assistance program. As I noted earlier, a request for Israel has not yet been included in our FY 1986 ESF program. As the Committee is aware, we have been carrying on a dialogue with Israel through a joint U.S.-Israeli Economic Development Group which is reviewing recent Israeli economic policy and development plans, and the role of U.S. assistance in support of that policy. We recognize the time constraints facing this Committee on this issue and we will make our request as soon as we can.

Finally, our FY 1986 proposal includes $37 million for Peacekeeping Operations (PKO) funding. This will support multilateral activities in the Sinai and Cyprus.

WORLDWIDE PROGRAMS

Within the overall security assistance program, the largest single component -- 41 percent -- is devoted to Israel and Egypt to support Middle East stability and peace. When an ESF request is made for Israel, this percentage of the total will increase and the percentage for other country groupings will decrease correspondingly. Base rights countries -- Spain, Portugal, Greece, Turkey and the Philippines -- account for 24 percent. These seven countries receive almost two-thirds of all security assistance. Military access and front-line states are provided 16 percent, while the strategically and politically important countries in Central America and the Caribbean account for another 11 percent. We have little choice but to provide those countries with the level of resources that are either required by treaty or are necessary to help insure their (and our) security. As a result, only 7 percent of the total FY 1986 security assistance request is left for all other country and regional programs programs (over 75). The only real flexiblity we have is in this final area and even here we are limited by resources (only $654 million) and the damage to our interests that elimination of some of these small programs might bring about.

Egypt and Israel. One of our highest priorities continues to be to bring a just and enduring end to the conflict and turmoil which has disturbed the Middle East for so long. Our assistance plays a crucial role. For that reason, the principal recipients of our world-wide request remain Israel and Egypt.

We believe that Israel must maintain confidence in its security if it is to take risks for peace. As a result of a bilateral review of Israeli defense requirements, we have increased the level of forgiven FMS financing substantially from $1.4 billion in FY 1985 to $1.8 billion in FY 1986. In a similar fashion the FY 1986 forgiven FMS financing program for Egypt has been increased to $1.3 billion to give it credible deterrence against Soviet armed radical states opposed to the Camp David accords and the Egyptian-Israeli peace treaty.

In FY 1986 we plan to provide the same level of ESF support to Egypt as that appropriated by Congress for FY 1985. As I indicated earlier, an ESF request for Israel will be made at a later date.

Base Rights Countries. Countries which provide the U.S. with the right to utilize territory to maintain bases are critical to the forward projection of our global defense posture. Security assistance for those countries at the requested levels is essential to sustain confidence in the best efforts pledges which underpin all U.S. base agreements.

Security assistance in FY 1986 totals $2.3 billion for the five base rights countries.

Greece and Turkey are essential to the continued viability of the southern flank of NATO. In addition to controlling Soviet naval access to the Mediterranean, Turkey is strategically positioned along the flank of the USSR's Transcaucasus region, where the Soviets have substantially increased their forces.

At $785 million, the FY 1986 MAP and FMS financing request for Turkey is $85 million higher than the amount allocated under the FY 1985 CR. Although a more significant increase could be justified on programmatic grounds, the amount requested is the minimum necessary to assist Turkey to meet its NATO commitments through force modernization, including purchase of F-16 aircraft. Furthermore, we are proposing that a larger portion of the Turkey program be on a concessional basis to avoid undercutting that country's stringent economic stabilization program that has helped turn the country's economy around. While we are proposing an increase in military assistance, improvements in Turkey's economic performance have allowed us to lower our ESF request to $150 million.

We continue to pursue vigorously progress on Cyprus. The Government of Turkey has accepted and supported the Secretary General's initiative. This initiative offers the best available prospect for success. We must not undermine it by considering punitive conditions on assistance to Turkey which can only stiffen the resistance of those who oppose compromise.

Our request for Greece is identical to last year's. U.S. security assistance for Greece assists in armed forces' modernization to meet both Greek and NATO defense needs, and has helped to ensure continued use of four U.S. military facilities and a number of smaller installations.

Our security assistance program plays an important role in helping Spain to consolidate its new democratic institutions and meet NATO modernization standards. The FY 1986 request for this country, which permits U.S. use of Spanish military facilities, is the same as we are providing in FY 1985.

Portugal is a reliable NATO ally which provides the U.S. with access to the strategic Lajes Air Base facilities. The modest increase in the FY 1986 request over the FY 1985 program level for Portugal results primarily from an increase in FMS financing and will enable Portugal to begin participation in a NATO frigate program.

In the Philippines security assistance supports a vital defense relationship. The basic framework for our request is the Presidential "best efforts" commitment made in connection with the five-year review of our Military Base Agreement in 1983. Our security assistance program of $197 million for the Philippines seeks to alleviate the Philippines' most critical economic crisis since World War II and to counter the growing armed insurgency by the Communist Party's military arm. It will also support the revitalization of democratic institutions and long-term economic growth. The ESF request is for $95 million while the military assistance request has been increased to account for the FY 1985 shift of much of the FMS request to ESF. An improvement in the grant and concessional nature of our request reflects our concern for the deteriorating Philippine economy.

Military Access/Frontline States. A number of U.S. security assistance recipients, such as Korea and Thailand, face hostile Soviet or Soviet-backed states across their borders. Others permit the U.S. to use storage facilities or provide refueling arrangements which are important to the execution of U.S. military exercises and enable us to move troops to trouble spots at critical moments. I will comment on a few of these key allies.

Within this grouping of countries, we have valuable treaty allies such as Korea where almost 40,000 U.S. troops are located. Our military assistance to this country is virtually at the same level as in FY 1985.

Thailand, another front-line state, faces Soviet-supported Vietnamese aggression in Cambodia from military forces larger and better equipped than its own. Our program is designed to provide the Thais with a credible deterrent force to deal with Vietnamese incursions such as the one that recently occurred and to help them cope with the economic costs of the refugee displacements that have resulted from the fighting in Cambodia. Other key friends such as Sudan face serious security threats from Libyan adventurism.

Pakistan, also in this grouping, is a vital participant in international efforts to resolve the crisis created by the Soviet invasion of Afghanistan. Our assistance package to Pakistan is part of a six-year program to help that country to improve its defense capabilities and economic performance. The small overall increase to $576.2 million in our security assistance program with Pakistan is almost entirely in the ESF account and partially reflects a decline in our requested levels of development assistance.

On the Arabian Peninsula Oman is the only country where we have a formal access agreement which provides access to U.S. military forces in peacetime and contingency and allows the U.S. to preposition military materiel at several locations. Oman is a strong supporter of Camp David and the President's September 1982 initiative. It is key to preserving our access to the Gulf.

Central America and the Caribbean. As I indicated earlier, progress is being made in Central America on both the political and military fronts. The momentum is clearly with our friends in the region. I am encouraged and confident that our security assistance funding has been a key factor in these positive developments. The appropriation by Congress of adequate FY 1985 security assistance and an increased level for FY 1984 through a supplemental for Central America has gone a long way toward implementation of the recommendation of the National Bipartisan Commission on Central America for "greater continuity and predictability" in our aid to that beleaguered area. Nevertheless, the guerrillas in El Salvador remain a serious threat and must be dealt with, Nicaragua still threatens to destabilize the entire region and economic problems remain.

Our FY 1986 request for Central America is essentially one of continuity to sustain and further the progress made in implementing the National Bipartisan Commission's recommendations. For FY 1986 over 70 percent, or $601 million, of the security assistance requested for Central America is in the form of ESF. This assistance will continue our support for the resolution of the economic crisis plaguing the area. (There is also an additional $379 million in development and food aid proposed for the area.) To enable our economic assistance to be effective, we plan to devote $254 million in military assistance to safeguard the further development of democracy and economic growth against anti-democratic forces.

As in FY 1985, El Salvador is to be the largest recipient of both security assistance in Central America. The proposed $132.6 million in military assistance represents only a small increase over the enacted FY 1985 level and will help provide the security necessary to sustain critical economic, social and political programs. Our ESF request of $210 million is crucial to the maintenance of economic stability in the face of continued destabilization efforts by the insurgents. It will enable the Salvadoran Government to procure commodities, including equipment to restore and maintain internal communication, marketing and distribution links, and to assist displaced families.

Neighboring Honduras has serious financial difficulties exacerbated by its proximity to the area's trouble spots. The use of $80 million in ESF to fulfill a need for fast-disbursing non-project assistance will be negotiated within the context of a U.S.-Honduran economic working group. Grant MAP totaling $87 million is to be applied to the critically needed Honduran program of selective modernization and expansion of its armed forces.

Costa Rica, an historically secure democracy, nevertheless faces security challenges and considerable economic stress. $2.5 million in MAP grants is to be largely dedicated to the maintenance of previously provided equipment. An ESF program of $150 million is planned for Costa Rica to assist in stabilizing the economy and establishing and export-led recovery.

For Guatemala our total security assistance request of $35.3 million -- $10.3 million in military assistance, and $25 million in ESF -- is less than our request for FY 1985 although more than the amount allocated from FY 1985 appropriations. Guatemala is preparing for Presidential elections this year. Our program is designed to encourage further movement toward democracy, and to assist the Government of Guatemala to redirect resources to solve socio-economic problems and overcome local insurgency. It would be counterproductive if this assistance were to be again restricted as in the FY 1985 CR.

Lesser amounts of military assistance are requested for Belize, Panama, the Panama Canal Area Military Schools, and for the U.S. Army School of the Americas at its Ft. Benning, Georgia transitional training facility.

The Caribbean area still faces severe economic problems which we are now attempting to address with ESF levels that are substantially higher than those for military assistance. Nevertheless, the island nations of the Eastern Caribbean have small or no regular defense forces and require modest amounts of U.S. military assistance to enhance their capabilities and give them the capacity to protect themselves. An adequate amount of economic and security assistance to this area is essential if we are to maintain stability in the region and avoid future Grenada's.

All Other Country and Regional Programs. After security assistance has been provided to Israel and Egypt, base rights countries, Central America and the Caribbean and military access/front-line states, only about 7 percent (or $654 million) is left for more than 75 country and regional programs scattered around the globe. While many of the nations in the "All Other" category are provided only small IMET programs, others have much more pressing security needs which must be addressed even though they do not fall into the four priority categories that I have just discussed.

Peru, for example, is struggling against the brutal Maoist "Sendero Luminoso" insurgency as well as drug traffickers. We plan to assist Peru in dealing more effectively with its threats to internal stability while encouraging efforts at arms supply diversification.

We have also requested a new FY 1986 ESF initiative for three Andean democracies -- Ecuador, Peru and Bolivia. The negative effects of almost hemispheric wide economic difficulties have hit these smaller democratic countries especially hard. Their economic problems have been compounded by major damage from the "El Nino" climatic disaster of two years ago. Political stress, especially in Peru, has resulted from terrorism and narcotics trafficking. We are proposing $70 million in ESF for these three countries to help alleviate some of their more pressing problems.

Africa also represents critical security interests to the U.S. and a number of African programs fall within this "all other" grouping. Africa is important for its vital mineral resources, U.S. investment and its proximity to our interests in Southwest Asia. In East and southern Africa the destabilizing influence of the Soviets must be countered. Our strategic objectives continue to include the pursuit of peaceful settlement in Namibia, a change in South Africa's system of apartheid and the withdrawal of Cuban troops from Angola.

Africa today faces the most critical test in its history -- the continuing economic crisis compounded by drought. Our ESF programs in Africa, in conjunction with other forms of economic assistance, are designed to help spur economic development in the face of famine and economic stagnation. An important element of our FY 1986 African ESF program is the $75 million request for helping those countries who are taking difficult but positive steps toward economic reform. To initiate this activity the Congress appropriated $75 million for FY 1985.

Although it is still in an early stage of implementation, we believe we can be successful in continuing to stimulate the visible trend in many African countries toward free market economies and away from statist economic approaches.

For FY 1986 modest MAP and IMET programs are proposed for Burma. One of the world's poorest nations, Burma is struggling against an insurgency which is heavily supported by illicit narcotics production and trafficking. We believe the small program we are proposing can contribute to strengthening U.S. and Burmese relations and to their dealing more effectively with this internal security problem.

I have highlighted only a few of the small but important security assistance programs in this "all other" category. There are, of course, many more for which time will not permit a full discussion. Suffice it to say, however, that any reductions in our program will fall heavily in this small area of flexibility. In some cases, entire country programs will be in jeopardy.

CONCLUSIONS

In 1981 this Administration pledged to rebuild the leadership role of the United States in world affairs. We moved to formulate a coherent, consistent foreign policy in which the entire range of assistance programs -- bilateral and multilateral, economic and military -- are used effectively to further U.S. political, economic and humanitarian interests and to enhance our security and the security of our friends around the world. We have made considerable progress in the last four years and I am convinced more than ever that the programs we have implemented are effective. We are moving in the right direction.

Mr. Chairman, U.S. strategic interests and commitments have dictated a set of priorities which we have attempted to implement -- leaving few resources and very little flexibility to fulfill the needs of other friends and allies. The FY 1986 program I have presented to you today represents the minimum funding essential to meet national security objectives and conduct a coherent and responsible foreign policy. Let us continue to move forward with a program that we know works. I hope that Congress will give the FY 1986 security assistance program its full support.

1986 SECURITY ASSISTANCE

Mr. SCHNEIDER. I have a brief statement, which will be about 5 minutes, and with your concurrence, I will go through that.

I am pleased to appear before you today to discuss the administration's proposed fiscal 1986 Security Assistance Program. As the Secretary indicated last week in his overview of the entire program, foreign assistance is a prudent investment abroad. It assists us in the effective implementation of our foreign policy objectives, promotes global economic and political freedom, and reflects the humanitarian concerns of the American people. Foreign assistance is also one of the most cost effective means at our disposal for enhancing our national security.

Even under the best of economic and budgetary circumstances, however, there are limits to the amount of financial assistance which the United States can or should provide to our friends and allies. This year, as the President has made clear, we must deal with the structural deficit in the Federal budget in order to maintain a healthy U.S. financial system and continued noninflationary economic growth. At the same time, we must not abdicate our global responsibilities.

Security assistance is especially important in the pursuit of some of our key policy goals, as well as in meeting national defense imperatives. For that reason the security assistance request, once an ESF request is made for Israel, will be greater than the amount enacted for fiscal 1985. As the Secretary testified before the Budget Committee, however, these increases are more than offset in other parts of the overall international affairs budget function. These security assistance increases reflect a reordering of priorities within the international affairs budget function. A decrease in the overall level of Federal activity in the international area will still result. As I will demonstrate later in my testimony, we have prepared a security assistance proposal that represents the minimum level of resources necessary to meet our foreign policy/national security needs.

For fiscal 1986, we are requesting $9.5 billion in security assistance—$6.7 billion in military assistance programs and $2.8 billion in ESF assistance. A request for Israel has not yet been included in our fiscal 1986 ESF program. Once this amount is included, the ESF level will, as the Secretary has testified earlier, exceed the ESF level appropriated in the fiscal 1985 continuing resolution.

An $860 million increase in the FMS credit and grant military assistance over the levels in the fiscal 1985 continuing resolution can largely be accounted for by increased levels for only four countries: Egypt, Israel, the Philippines, and Turkey. All four countries are friends with whom we have close security cooperation. The latter two countries are base rights countries whose armed forces are in dire need of modernization or improvement.

The fiscal 1986 security assistance program was carefully developed through an extensive interagency process which thoroughly reviewed each program. We assigned relative priorities to our key strategic objectives and coordinated them with foreign policy and defense planning, and with development assistance priorities.

LIMITED BUDGET GROWTH

The fiscal 1986 program has been crafted in accordance with the administration's extraordinary efforts to restrict budget growth. As a consequence of this process, 93 percent of the total fiscal 1986 security assistance request is devoted to four categories of vital strategic interests and commitments in areas where we have virtually no flexibility to reduce the levels. These categories are: Israel and Egypt, associated with the Middle East peace efforts, base rights countries, frontline and military access states, and Central America and the Caribbean.

MIDDLE EAST

One of our highest priorities continues to be to bring a just and enduring end to the conflict and turmoil which has disturbed the Middle East for so long. Our assistance plays a crucial role. For that reason, within the overall security assistance program, the largest single component—41 percent—is devoted to Israel and Egypt to support Middle East stability and peace.

BASE RIGHTS COUNTRIES

Countries which provide the United States with the right to utilize territory to maintain bases are critical to the forward projection of our global defense posture. These base rights countries—Spain, Portugal, Greece, Turkey, and the Philippines—account for $2.3 billion or 24 percent of our total security assistance request. The requested level for those countries is essential to sustain the confidence in the best effort pledges which underpin all U.S. base agreements.

Thus, seven countries—Israel and Egypt, and the five base rights countries—receive almost two-thirds of all security assistance.

A number of U.S. security assistance recipients, such as Korea and Thailand, face hostile Soviet or Soviet-backed states across their borders. Others permit the U.S. to use storage facilities or provide refueling arrangements which are important to the execution of U.S. military exercises and enable us to move troops to trouble spots at critical moments. These military access and frontline states are provided with a further 16 percent of the total security assistance request.

CENTRAL AMERICA

There has been definite and sustained progress toward democracy and stable political processes in Central America and, indeed, throughout the Hemisphere, notwithstanding the continuing efforts of Soviet and Cuban-backed insurgents to undermine the political and economic fabric of Central American governments. There has also been a turnaround in the ability of the Salvadoran armed forces to conduct counterinsurgency operations.

The momentum is clearly with our friends in the region. Our fiscal 1986 request for Central America is essentially one of continuity to sustain and further progress made in implementing the recommendations of the National Bipartisan Commission on Central America. These strategically and politically important countries in Central America, as well as those in the Caribbean account for another 11 percent of the fiscal 1986 request.

NECESSITY OF ADEQUATE FUNDING LEVELS

We have little choice but to provide Israel and Egypt, the base rights countries, Central American and Caribbean countries, and the military access and frontline states with the levels of resources that are either required by treaty or are necessary to help ensure their and our security.

After security assistance has been provided to them, however, only 7 percent, or $654 million, is left for more than 75 country and regional programs scattered around the globe. While many of these nations are provided with only small military education and training programs, others have much more pressing security needs which must be addressed even though they do not fall into the four priority categories that I have just discussed.

Into this "all other" category fall many of the African countries critical to our security interests, as well as the economically hard pressed smaller democratic Andean countries. There are, of course, many more for which time will not permit a full discussion. Suffice it to say, however, that the only real flexibility we have in the security assistance program is in this final area, and even here we are limited by resources, and the damage to our interests that the elimination of these small programs might bring about.

In 1981 this administration pledged to rebuild the leadership role of the United States in world affairs. We moved to formulate a coherent, consistent foreign policy in which the entire range of assistance programs—bilateral and multilateral, economic and military—are used effectively to further U.S. political, economic, and humanitarian interests and to enhance our security and the security of our friends around the world. We have made considerable progress in the last 4 years, and I am convinced more than ever that the programs we have implemented are effective.

We are moving in the right direction. I would like to add here, Mr. Chairman, that your personal efforts and those of many members of this committee in securing adequate security assistance funding levels have contributed significantly to this effectiveness, and has worked to the mutual interests of the United States and our friends abroad.

Mr. Chairman, I will conclude my remarks at this point, and I will take questions as appropriate.

Senator KASTEN. Mr. Secretary, thank you very much.

DEPARTMENT OF DEFENSE

DEFENSE SECURITY ASSISTANCE AGENCY

STATEMENT OF LT. GEN. PHILIP C. GAST, DIRECTOR, DEFENSE SECURITY ASSISTANCE AGENCY

SUPPORT FOR FOREIGN POLICY AND NATIONAL DEFENSE STRATEGY

Senator KASTEN. General.

General GAST. Mr. Chairman, I have a detailed statement for the record. I will make a very brief presentation. If I may use charts, I will make it from those.

It is a pleasure for me to appear before you representing the Secretary of Defense and defense goals. We have charts for you, as well as other members.

[CLERK'S NOTE: The charts appear at the conclusion of the prepared statement.]

Looking at it from the perspective of the Department of Defense, we work very closely with the State Department in putting this package together [Chart 1]. We work with individual countries in putting together packages for the nations building their own self-defense so that we can avoid minor conflicts, and prepare for them. We also look at it on a regional and global basis, looking at the threat posed by the Soviet Union and other people, such as Mr. Qadhafi. Our overall goal is to avoid conflicts.

We believe, as Secretary Schneider said, that with the support of your committee and the Congress as a whole, the Security Assistance Program has done a great deal to contribute to our foreign policy and our national defense strategy.

Mr. Chairman, the blocks on this contributions chart are scaled relatively for fiscal year 1984 military assistance only [Chart 2]. It shows here, in the hatched areas, how the programs have grown over the past 4 years in important areas. The blue indicates where we have maintained deterrence and peace. With the red blocks, we have not quite managed to do that because things were ahead of us, but we have contained the warfare and conflict in the places shown.

The yellow indicates where we have contributed economically to distressed countries. Finally, the green shows the base rights countries as well as where we have other agreements for access which enable us to project power if necessary. We also seek to develop interoperability with our friends and allies.

STRATEGIC AREAS OF INTEREST

As we look at the strategic areas of interest to the Department of Defense and the United States, we have put them in these categories: The Pacific Basin, the Middle East, South West Asia, NATO, the United States, and finally Central America [Chart 3].

CENTRAL AMERICA

In Central America we are very concerned about the Soviet-supported states that are threatening the peace and prosperity of those people and our sealines of communications, as well as the Canal, through which many of our resources must go for reinforcement in Europe or deployment to South West Asia. Next we draw particular attention to the Middle East area because there are three strategic areas that overlap.

We do not have the forces to maintain our security out there. We must have these bases to operate within these strategies and, therefore, this is where the military assistance portion, and in fact the whole security assistance package fits into our strategy.

The Soviets do things differently than we do [Chart 4]. This chart shows scaled Soviet arms sales and economic financing for these 4 years. There is a tremendous amount of aid here, but largely military, except where they see it to their advantage to provide economic aid to support certain states, which is very large indeed.

Senator KASTEN. General, are those CIA estimates you are using?

General GAST. This is based on intelligence information and our estimates. This is the documented level of aid, both economic as well as military. Some of this is not in terms of financial assistance, but in deliveries. So there is a mixture of deliveries, as well as economic assistance here. The point is that they provided it very rapidly, and they often sell military equipment at very low rates.

This gives you a feel of the magnitude of their program, and it also almost totally reflects the spots where they contribute to trouble. In fact, our studies show that since 1971, the Soviet Union has signed friendship pacts with 12 countries, and there has been troubles in 11 of those.

It is also worth pointing out that they have some 20,000 advisors abroad. In many of these countries, the total number of advisors that they provide exceed the total number of ours that are provided worldwide.

I would like to point out that in our program here, we work very closely with the countries, we allow them to determine what they need [Chart 5]. We plan with the countries, and we try to cover a 3- to 5-year period so that we understand the content of what they can contribute to their own security, as well as our own, and what we believe is appropriate to their threat. We do not buy large things or provide moneys where they are not needed.

It is a total package. One of the greatest attributes of American military and economic assistance is that it, in fact, helps the countries to sustain themselves. We believe there is a solid basis for the financing request before you.

Just a brief overview of where we were last year with El Salvador [Chart 6]. This chart points out that progress has been made in each of these areas. Security, of course, supports the democratic process and social development. We are pleased with the funds provided last year from Congress and the progress of Duarte and his government. We believe that your support of his government has made a large difference.

When we look at Turkey, we see it is at the nexus of the strategy in the Middle East, in South West Asia and in NATO, as we have indicated here [Chart 7]. It controls these vital straits, faces the Soviet Union, borders on the Persian Gulf, and also borders on the Middle East, making it a particularly important country where the obsolescence of their forces must be turned around. We can justify $1 billion for Turkey alone in this year's military assistance, but we have chosen to only make it $785 million to live within the budget constraints.

We planned with the countries listed here, Israel and Egypt [Chart 8]. We understand their threats and security needs, and we have come to an agreement on what those needs are with Israel. We believe, however, that any increase should not be sustained at the expense of the rest of the world.

FOREIGN AID BILL FOR MILITARY ASSISTANCE

This next chart shows the Congress and the executive branch working together to come up with a foreign aid bill for military assistance [Chart 9]. You can see the various levels. The chart reflects what the administration asked for and what you provided. It also shows that a major portion of this has been for Egypt and Israel, with increases in MAP and concessionary funds. This increase from fiscal year 1985 to fiscal year 1986 is largely for important strategic countries, that is to say, Egypt and Israel, Turkey, and the Philippines.

When we look at how the budget breaks out for these countries—this is scaled for the 1986 request—you can see the largeness of Israel and Egypt, which as Mr. Schneider pointed out, is about 46 percent of the whole military assistance program [Chart 10]. The green indicates the MAP portion, the yellow indicates the forgiven, and the concessional credits are in the red. The blue is treasury rate credits.

The program has been carefully structured so as not to increase country debt burdens, but yet let them meet their military requirements. If we add the 46 percent here, and 44 percent for the base rights and frontline countries, we have 10 percent left, of which 5 percent goes to this crucial region here in Latin America, including only 3.9 to Central America. The rest goes to the rest of the world.

We do not mean to indicate that the small countries are not important countries to us; it means only that the programs are small. All the programs are very carefully constructed programs, we believe.

When you look at the overall aid level, and we in DOD are very conscious of the need to have economic and military balance, it is about 60 percent economic and 40 percent military, if one puts ESF properly on the economics side [Chart 11]. This area on the chart shows that the ESF level for Israel would be $1.2 billion, but as you know this has not been submitted by the administration yet.

PROGRAM SIZE

This chart, again, dramatically shows the relative size of these programs, but it also shows that when the countries can pay, we offer credits on the military side, and we do not offer as much economic assistance.

You will note as we come into this region, Latin America and Central America, that it is heavy on the economic side, it is four to one in many of these countries, and more in others, as well as in Africa here.

The final last two points that I would make are not directly the responsibility of your committee. We need an authorization bill [Chart 12].

Senator KASTEN. We tried to help on that last year by putting authorization language in our appropriations bill.

General GAST. We very much appreciate that. We believe that we do need a bill in order to make more effective those moneys that you recommend to be appropriated.

DECLINE IN SALES LEVELS

Finally, I would like to point out that the sales levels have declined over the past few years [Chart 13]. The ratio of supplies and supporting systems to major systems sales is going up. We anticipate, it is too early to tell, that fiscal year 1985 is going to be a straightline level, which suggests that sales are not out of control.

Finally, I have listed on this chart the legislative initiatives, both those in the proposed legislation and those submitted within the general provisions of the budget [Chart 14–A–D]. We look forward to working with the committee and the staff to come to favorable terms on our bills.

This completes my statement, sir.

PREPARED STATEMENT

I submit my prepared statement for inclusion in the record.

Senator KASTEN. It will be inserted in the record at this point.

[The statement follows:]

PREPARED STATEMENT OF LT. GEN. PHILIP C. GAST
DIRECTOR
DEFENSE SECURITY ASSISTANCE AGENCY

INTRODUCTION

THANK YOU MR. CHAIRMAN.

SECRETARY SCHNEIDER HAS JUST PROVIDED THE SUBCOMMITTEE A COMPREHENSIVE REVIEW OF THE ADMINISTRATION'S REQUEST FOR THE FY 1986 SECURITY ASSISTANCE PROGRAM. WE IN THE DEFENSE DEPARTMENT FULLY SUPPORT THIS REQUEST AND BELIEVE IT REPRESENTS A BALANCED ECONOMIC AND MILITARY APPROACH TO ACHIEVING OUR NATIONAL GOALS. I WILL CONCENTRATE MY REMARKS ON WHAT DEFENSE BELIEVES ARE THE MAJOR STRATEGIC OBJECTIVES UNDERLYING THE SECURITY ASSISTANCE PROGRAM RECOMMENDATIONS.

STRATEGIC OBJECTIVES

SECURITY ASSISTANCE CONTRIBUTES TO OUR FOREIGN POLICY AND DEFENSE OBJECTIVES IN A NUMBER OF WAYS, SOME OBVIOUS AND SOME LESS SO. OUR PROGRAMS ARE DEVELOPED FROM A HIERARCHY OF STRATEGIC CONSIDERATIONS. FIRST COME U.S. GLOBAL STRATEGIC OBJECTIVES. FROM THESE, WE DERIVE STRATEGIC OBJECTIVES APPROPRIATE TO EACH REGION IN WHICH WE HAVE MAJOR INTERESTS. THESE REGIONAL OBJECTIVES ARE WEIGHED TOGETHER WITH THE COUNTRY-SPECIFIC THREATS AND MILITARY REQUIREMENTS IN ORDER TO PLAN, WITH THE COUNTRY, THE ACTUAL DETAILS OF EACH COUNTRY'S ASSISTANCE PACKAGE.

AT THE SAME TIME, OUR PROGRAMS ACCOMPLISH THE SECOND OBJECTIVE OF ASSISTING FRIENDLY COUNTRIES IN THEIR NATIONAL DEVELOPMENT BY ENCOURAGING SELF-RELIANCE AND PROMOTING SELF-SUFFICIENCY THROUGH BETTER SELF-DEFENSE. WE PROVIDE CRITICAL MILITARY SKILLS TRAINING AND THE KEY TECHNOLOGIES THAT HELP FRIENDLY COUNTRIES MAKE BETTER USE OF THEIR OWN LIMITED RESOURCES IN DETERRING REGIONAL THREATS TO THEIR STABILITY OR COPING WITH

INTERNAL THREATS THAT MAY BE INSPIRED OR SUPPORTED BY OUTSIDE FORCES. OUR SUPPLEMENTS TO THESE IN-COUNTRY EFFORTS MAKE THE DIFFERENCE BETWEEN REAL DEFENSE SELF-SUFFICIENCY AND DESTABILIZING WEAKNESS. HENCE, OUR PROGRAMS HELP TO SIGNIFICANTLY REDUCE THE LIKELIHOOD THAT UNITED STATES FORCES WILL BE CALLED UPON TO INTERVENE ON THE BEHALF OF FRIENDLY OR ALLIED COUNTRIES, A MAJOR BENEFIT IN AND OF ITSELF. COINCIDENTALLY, THE REDUCED LIKELIHOOD OF HAVING TO INTERVENE WITH U.S. FORCES MEANS WE CAN AFFORD TO DIRECT OUR ATTENTION TO THE MOST PRESSING INTERNATIONAL SECURITY ISSUES WITH LESS CONCERN FOR BEING SPREAD TOO THIN IN THE THIRD WORLD.

THERE ARE TWO MORE WAYS IN WHICH SECURITY ASSISTANCE SUPPORTS U.S. FOREIGN POLICY AND GLOBAL STRATEGY. ONE IS THAT SECURITY ASSISTANCE CONTRIBUTES TO INCREASES IN U.S. ABILITY TO PROJECT POWER AND DEPLOY FORCES RAPIDLY AND RESPONSIVELY WHENEVER STRATEGIC REGIONS OR KEY ALLIES ARE THREATENED. BY PROVIDING ASSISTANCE TO THOSE COUNTRIES WHICH HAVE AGREED TO RETAIN U.S. BASES ON THEIR TERRITORY AND GRANT ACCESS TO MILITARY FACILITIES, WE NOT ONLY IMPROVE OUR CAPABILITY TO PROJECT FORCES FAR FROM OUR SHORES BUT WE ARE BETTER ABLE TO SUSTAIN THOSE FORCES THROUGH THE USE OF AIR AND PORT FACILITIES. FURTHERMORE, WE GAIN THE ADDITIONAL FORCE MULTIPLICATION THAT COMES THROUGH INCREASED STANDARDIZATION AND INTEROPERABILITY.

IN ADDITION TO ENHANCING POWER PROJECTION, SECURITY ASSISTANCE HAS BECOME AN INCREASINGLY IMPORTANT INDUCEMENT IN PROMOTING PEACEFUL SOLUTIONS TO LONGSTANDING AND POTENTIALLY EXPLOSIVE DISPUTES, MOST NOTABLY IN THE MIDDLE EAST.

WITHOUT SECURITY ASSISTANCE, WE WOULD NOT BE ABLE TO IMPLEMENT REGIONAL STRATEGIES INVOLVING FRIENDLY COUNTRIES AND ALLIES. FURTHER, AS YOU REVIEW OUR PROGRAM, I URGE YOU TO KEEP IN MIND THAT OUR COUNTRY FUNDING PROPOSALS TEND TO SUPPORT SEVERAL DIFFERENT STRATEGIC GOALS SIMULTANEOUSLY, BECAUSE REGIONAL STRATEGIES INEVITABLY INTERSECT AND OVERLAP. CLEARLY, SECURITY ASSISTANCE IS INSTRUMENTAL IN SHAPING OUR FOREIGN POLICY AND IS MAKING A DIRECT CONTRIBUTION TO OUR NATIONAL DEFENSE AT REMARKABLY LOW COST. OVER THE PAST SEVERAL YEARS THE EXECUTIVE AND LEGISLATIVE BRANCHES, WORKING TOGETHER, HAVE LAID A FIRM FOUNDATION FOR THE SECURITY OF OUR FRIENDS, ALLIES AND OURSELVES. THIS IS NOT TO SAY THAT SERIOUS PROBLEMS DO NOT REMAIN, BUT WE ARE POSITIONED WELL TO MEET OUR FOREIGN POLICY AND DEFENSE OBJECTIVES. WE MUST CONTINUE, WORKING TOGETHER, TO BUILD UPON OUR SUCCESSES AND PROGRESS.

PROGRAM PLANNING AND MANAGEMENT

IN THE BROADEST SENSE, OUR SECURITY ASSISTANCE PLANNING SUPPORTS BASIC U.S. FOREIGN POLICY GOALS BY TAKING INTO ACCOUNT THE WELL-KNOWN INTERDEPENDENCE BETWEEN PHYSICAL AND ECONOMIC SECURITY. POLITICAL STABILITY IS AS THREATENED BY ECONOMIC INSTABILITY AS IT IS BY EXTERNALLY INSPIRED POLITICAL DESTABILIZATION. WHEN POLITICAL STABILITY IS THREATENED, DEMOCRATIC INSTITUTIONS AND VALUES ARE ALSO THREATENED. CONSEQUENTLY, SECURITY ASSISTANCE PLANNING PLACES AS MUCH EMPHASIS ON THE BALANCE BETWEEN ECONOMIC AND MILITARY ASSISTANCE AND THE IMPACT OF FUTURE DEBT BURDENS AS IT DOES ON THE EFFECT OF FORCE STRUCTURE MODERNIZATION IN DETERRING THREATS. MOREOVER, WE USE THE METICULOUSNESS OF THE PLANNING PROCESS AND THE EXPERIENCE OF OUR SECURITY ASSISTANCE STAFFS TO ENSURE THAT OUR COUNTRY PROPOSALS DO NOT CONTAIN UNNECESSARY EXTRAS AND ARE TAILORED TO FULFILL THOROUGHLY-REVIEWED COUNTRY REQUIREMENTS.

IN THE COURSE OF PURSUING OUR OBJECTIVES IN OUR RELATIONSHIPS WITH COUNTRIES WITH WHOM WE HAVE SECURITY ASSISTANCE PROGRAMS, ESPECIALLY THOSE WHERE WE PROVIDE FINANCING, WE WORK DILIGENTLY WITH THE COUNTRY TO ENSURE THAT THEY BUY WHAT THEY NEED, THAT IT CAN BE EFFECTIVELY OPERATED AND MAINTAINED WITHIN THEIR RESOURCES AND SKILLS, THAT IT CONTRIBUTES SIGNIFICANTLY TO THEIR DEFENSE, AND MAKES A CONTRIBUTION TO COALITION DEFENSE WHERE POSSIBLE. OUR EMBASSIES, SECURITY ASSISTANCE OFFICES, UNIFIED COMMAND STAFFS AND WASHINGTON AGENCIES ARE ALL DEEPLY ENGAGED IN THIS PROCESS. WE WORK WITH COUNTRIES TO ENSURE THEY RECOGNIZE THE NEED FOR BALANCED PROGRAMS APPROPRIATE TO THE THREATS THEY FACE, PROGRAMS THAT INCLUDE THE TRAINING AND LOGISTICS SUPPORT THEY NEED TO MAKE AND KEEP THEIR FORCES EFFECTIVE. OUR EXPERIENCE HAS SHOWN THAT MOST COUNTRIES DO NOT MAKE EXORBITANT REQUESTS OR UNREASONABLE DEMANDS ON THE U.S. THEY ARE SENSITIVE TO THEIR ABILITY TO ABSORB NEW EQUIPMENT. ALMOST ALL ARE AWARE OF THEIR FINANCIAL LIMITATIONS.

CONSIDERABLE PLANNING IS DEVOTED TO INTEGRATING SECURITY ASSISTANCE WITH ECONOMIC DEVELOPMENT AND OTHER PROGRAMS BY TAILORING APPROPRIATE LEVELS TO SPECIFIC COUNTRY REQUIREMENTS. WE HAVE MADE GREAT STRIDES IN REDUCING THE FUTURE REPAYMENT BURDENS OF THE POORER COUNTRIES. OUR MILITARY FINANCING ASSISTANCE IS ONLY A SMALL PORTION OF THE TOTAL DEBT BURDENS FOR MOST OF THESE COUNTRIES EXCEPT PERHAPS ISRAEL AND EGYPT. WE OFTEN CONDUCT PERIODIC PROGRAM REVIEWS, MEETING ALTERNATELY IN THE COUNTRY AND IN THE U.S. WE HAVE INCREASED AND INTENSIFIED THESE PLANNING EFFORTS WITH CRITICAL COUNTRIES OVER THE LAST TWO OR THREE YEARS, AND BELIEVE THAT THE FINANCING PROGRAMS WE HAVE PRESENTED IN THE FY 1986 BUDGET REQUEST ARE FIRMLY GROUNDED IN SENSIBLE MILITARY PROGRAMS.

THE FY 1986 REQUEST

THE FY 1986 SECURITY ASSISTANCE REQUEST CONTINUES PREVIOUS YEAR PROGRAMS WITH NO MAJOR COUNTRY INCREASES APART FROM ISRAEL AND EGYPT AND PROPOSES NO MAJOR NEW DEPARTURES FROM THE PAST. IT REFLECTS OUR EFFORTS TO SUPPORT U.S. STRATEGIC INTERESTS AND TO BE RESPONSIVE TO EACH COUNTRY'S MILITARY AND ECONOMIC REQUIREMENTS THROUGH OUR MIX OF MILITARY AND ECONOMIC FINANCING AND THROUGH OUR MIX OF TREASURY RATE CREDITS, CONCESSIONAL CREDITS, AND MAP GRANTS.

MILITARY ASSISTANCE. OF THE $623M INCREASE FOR FY 1986 OVER

OUR FY 1985 REQUEST IN THE MILITARY ASSISTANCE ACCOUNTS, $555M IS ATTRIBUTABLE TO INCREASES FOR ISRAEL ($400M), EGYPT ($125M) AND TURKEY ($30M). THE REMAINDER IS ATTRIBUTABLE TO INCREASES OF $69M IN MAP TO THREE COUNTRIES: THE PHILIPPINES ($25M), HONDURAS ($25.7M), AND PERU ($18.35M). IN THE CASE OF THE PHILIPPINES THE INCREASE IS INTENDED TO RESTORE THE MIX OF MILITARY AND ECONOMIC ASSISTANCE ORIGINALLY ESTABLISHED IN THE 1983 MILITARY BASES AGREEMENT. THERE IS ALSO AN INCREASE OF $5M OVER THE FY 1985 REQUEST FOR IMET. IMET IS GENERALLY ACKNOWLEDGED TO BE THE SINGLE MOST COST-EFFECTIVE PROGRAM WE HAVE FOR EXPANDING OUR INFLUENCE WITH AND DEMONSTRATING OUR SUPPORT FOR FRIENDS AND ALLIES THE WORLD OVER. THE ADDITIONAL FUNDS WOULD ALLOW US TO INCREASE THE NUMBER OF COUNTRIES PARTICIPATING IN THE IMET PROGRAM TO 100 BY ADDING LUXEMBOURG, COMOROS, SAO TOME, TANZANIA, ARGENTINA, BRAZIL, GUYANA AND, PENDING PRESIDENTIAL CERTIFICATION, CHILE.

AS IN PAST YEARS, THE LARGEST SHARE OF OUR MILITARY ASSISTANCE REQUEST, ABOUT 46%, GOES TO EGYPT AND ISRAEL. THIS REFLECTS THE PRIORITY THAT WE PLACE ON FACILITATING THE MIDDLE EAST PEACE PROCESS AND ON SUPPORTING OUR STRONGEST MIDDLE EAST ALLY, ISRAEL.

THE NEXT LARGEST SHARE, ABOUT 44%, GOES TO THE FIVE STRATEGICALLY IMPORTANT BASE RIGHTS COUNTRIES AND THE FRONTLINE STATES SUCH AS PAKISTAN, KOREA AND THAILAND. OF THE REMAINING 10% OF MILITARY ASSISTANCE, ABOUT 5% GOES TO LATIN AMERICA AND 5% TO ALL OTHERS.

MIX OF GRANTS AND LOANS. IN DEVELOPING THE FY 1986 MILITARY ASSISTANCE REQUEST, WE HAVE BEEN ESPECIALLY CAREFUL TO TAILOR THE TYPE OF FINANCING - GRANT, CONCESSIONAL OR NONCONCESSIONAL LOANS - TO THE ECONOMIC CONDITIONS OF EACH COUNTRY RECEIVING ASSISTANCE. SETTING ASIDE THE $525M INCREASE IN FORGIVEN LOANS FOR EGYPT AND ISRAEL, GRANT MILITARY ASSISTANCE TO COUNTRIES WAS

INCREASED BY 9% AND THE CONCESSIONAL LOANS REQUEST IS SOMEWHAT LOWER THAN WHAT CONGRESS APPROPRIATED AND THE ADMINISTRATION ALLOCATED LAST YEAR. THE LARGER TREASURY RATE LOAN PROGRAM WAS DECREASED BY 10% FROM OUR FY 85 REQUEST. THESE ADJUSTMENTS, PLUS AN INCREASE IN ESF, RESULT IN A BUDGET REQUEST WHICH WE BELIEVE REFLECTS THE ECONOMIC AS WELL AS THE POLITICO-MILITARY REALITIES IN THE COUNTRIES WHERE WE HAVE SECURITY ASSISTANCE PROGRAMS WHILE MAINTAINING APPROXIMATELY A 60/40 MIX OF ECONOMIC TO MILITARY ASSISTANCE IN THE TOTAL FOREIGN ASSISTANCE BUDGET.

LEGISLATIVE INITIATIVES

NOW I'D LIKE TO DISCUSS SOME OF THE CHANGES IN LEGISLATION BEING PROPOSED IN THE FY 1986 BILL. A NUMBER OF THESE INITIATIVES HAVE BEEN SUBMITTED IN THE PAST BUT, BECAUSE THERE WERE NO AUTHORIZATION ACTS, WE FAILED TO GET FINAL ACTION. THE LAST AUTHORIZATION ACT WAS IN 1981, BUT WE NEED NEW AUTHORIZING LEGISLATION TO STREAMLINE SECURITY ASSISTANCE MANAGEMENT AND TO TAKE USEFUL MEASURES TO STRENGTHEN OUR TRAINING BONDS WITH OTHER COUNTRIES.

I WANT TO PERSONALLY EXPRESS DOD'S APPRECIATION TO THIS COMMITTEE FOR INCLUDING IN THE CONTINUING RESOLUTION FOR FY 1985 CRITICAL AUTHORIZATION PROVISIONS. AS YOU KNOW, THE CONTINUING RESOLUTION INCLUDED FAVORABLE ACTIONS FOR INCREASING AUTHORIZATION LEVELS FOR THE WAR RESERVE STOCKS IN KOREA (WRSA-KOREA); EXTENDING 10/20 REPAYMENT TERMS FOR KOREA, PORTUGAL AND SPAIN (THIS YEAR WE ARE REQUESTING THAT THAILAND AND THE PHILIPPINES BE ADDED TO THE LIST, BUT WE HAVE NOT INCLUDED SPAIN); ESTABLISHING THE TERMS FOR CONCESSIONAL CREDITS; PROVIDING ALLFORGIVEN CREDIT PROGRAMS FOR ISRAEL AND EGYPT; AND ELIMINATING THE MULTI-TIER PRICE STRUCTURE ON SALES OF TRAINING. LET ME CALL ATTENTION TO THE OTHER INITIATIVES WHICH WILL BE OF SPECIAL INTEREST TO THIS COMMITTEE.

GUARANTEED RESERVE FUND (GRF)

WE ARE REQUESTING AUTHORIZATION TO MODIFY HOW FMS LOANS ARE GUARANTEED. THIS NEW INITIATIVE IS DESIGNED TO CORRECT SOME OF THE INEFFICIENCIES IN CURRENT PROCEDURES. AS YOU KNOW, THE GRF WAS ESTABLISHED TO ENABLE THE USG TO SATISFY ITS OBLIGATIONS UNDER VARIOUS FMS LOAN AGREEMENTS TO MAKE PAYMENTS TO THE FEDERAL FINANCING BANK (FFB) AND OTHER LEADING INSTITUTIONS WHEN BORROWERS DEFAULTED OR LOANS WERE RESCHEDULED. IF CURRENT PATTERNS PERSIST, DUE IN THE MAIN TO PARIS CLUB MULTI-LATERAL RESCHEDULING, WE PROJECT THAT PAYMENTS OUT OF THE GRF WILL CONTINUE TO EXCEED COLLECTIONS CREDITED. TO CORRECT INEFFICIENCIES, WE PROPOSE TO ELIMINATE THE CURRENT GRF AND TO TRANSFER ANY BALANCE EXISTING AT THE END OF FY 1985 TO A NEW ACCOUNT TO BE CALLED THE GUARANTEE RESERVE (GR). THE NEW ACCOUNT WILL EMPLOY A MODIFIED REVOLVING MECHANISM, BUT WHEN A REQUIRED PAYMENT EXCEEDS AVAILABLE BALANCES, THE GR WILL BE AUTHORIZED TO DRAW UPON A PERMANENT INDEFINITE APPROPRIATION. PERMANENT INDEFINITE APPROPRIATION MEANS THAT NO SPECIFIC SUM IS APPROPRIATED, THE APPROPRIATION IS NOT CONSTRAINED BY ANY TIME LIMIT AND ONCE CONGRESS APPROVES THE APPROPRIATION, NO FURTHER APPROVAL ACTION IS REQUIRED ON AN ANNUAL BASIS. IN ITS TOTALITY, THE CONCEPT MEANS THAT THE AUTHORITY WILL EXIST TO OBLIGATE AND EXPEND USG FUNDS IN THE AMOUNT NECESSARY TO COVER PAYMENTS OUT OF THE GR. THIS PROPOSED CHANGE ENSURES THAT APPROPRIATED FUNDS WILL ALWAYS BE AVAILABLE AND THAT THE AMOUNT DRAWN UPON WILL BE THE EXACT AMOUNT REQUIRED. THIS APPROACH WILL SMOOTH THE CASH FLOW PROBLEMS THAT ARE LIKELY IN FY 1987 AND BEYOND AND AVOID THE POSSIBILITY OF THE GR BEING UNABLE TO FULFILL ITS LEGAL OBLIGATION TO PAY DEFAULTED AND RESCHEDULED GUARANTEED LOANS.

SPECIAL DEFENSE ACQUISITION FUND (SDAF)

THE CONGRESS HAS SUPPORTED SDAF SINCE IT BEGAN IN 1981. WE NOW HAVE SOME EXPERIENCE WITH THE PROGRAM. IT HAS HAD THE BENEFIT OF A GENERAL ACCOUNTING OFFICE REVIEW. WE ADOPTED MOST

OF THEIR MANAGEMENT SUGGESTIONS WHILE THE REPORT WAS STILL IN DRAFT. WE BELIEVE THE PROGRAM IS RUNNING SMOOTHLY AND EFFECTIVELY AND IS SERVING THE PURPOSES THE ADMINISTRATION AND CONGRESS HAD IN MIND IN SETTING UP THE FUND.

WHILE EXPLORING THE PRACTICAL BOUNDARIES OF SDAF OPERATIONS, WE MADE SOME INFORMAL PROPOSALS FOR USE OF THE SDAF THAT DID NOT RECEIVE AN ENTHUSIASTIC RESPONSE IN CONGRESS. IN EACH INSTANCE, WE ACCEPTED COMMITTEE OR STAFF RESTRAINTS ON USE OF THE FUND, EVEN THOUGH NO SPECIFIC LEGISLATION WAS PASSED. WE HAVE CLEARLY DEMONSTRATED THAT WE WANT TO WORK WITH THE CONGRESS AS THE SDAF DEVELOPS INTO AN EVEN BETTER INSTRUMENT OF FOREIGN AND DEFENSE POLICY. AS IS THE CASE FOR ANY OF OUR PROPOSALS, WE WOULD BE HAPPY TO BRIEF ANY MEMBER OR THE STAFF ON THE DEVELOPMENT OF THE SDAF AND OUR RATIONALES FOR THE SPECIFIC PROPOSALS WE ARE MAKING FOR THE IMPROVEMENT OF THE PROGRAM.

IN THE FINAL GAO REPORT THERE WERE SEVERAL RECOMMENDATIONS FOR CHANGES TO THE EXISTING LEGISLATION. WE HAVE SELECTED PART OF THEM - NOT ALL - BECAUSE WE BELIEVE THAT DEVELOPMENT OF THE PROGRAM SHOULD BE EVOLUTIONARY. WE BELIEVE OUR SELECTED PROPOSALS DESERVE YOUR UNDERSTANDING AND SUPPORT.

WE WILL BE SEEKING TO INCREASE THE SDAF CAPITALIZATION LEVEL ABOVE THE $900 MILLION WE NOW HAVE. AN INCREASE WAS SUGGESTED BY THE ARMED SERVICES COMMITTEES LAST YEAR. WE WILL NEED AN INCREASE IN CAPITALIZATION TO SUPPORT THE $345 MILLION PROGRAM WE ARE PROPOSING FOR FISCAL YEAR 1986. IF THE CAPITALIZATION LEVEL IS NOT INCREASED, WE WOULD HAVE TO SEVERELY LIMIT PURCHASES IN FY 1986 BECAUSE MUCH OF THE CAPITAL WE HAVE NOW IS STILL TIED UP IN THE PIPELINE.

WE ARE ALSO SEEKING, IN THE APPROPRIATIONS BILL LANGUAGE, AUTHORITY TO SPEND SDAF OBLIGATION AUTHORITY OVER A THREE-YEAR PERIOD RATHER THAN IN JUST THE YEAR GRANTED. WE HAVE BEEN HAVING SOME DIFFICULTIES WITH THE ONE-YEAR LIMIT ON OBLIGATION

AUTHORITY; HIGH PRIORITY SDAF BUYS HAVE HAD TO BE POSTPONED OR FOREGONE BECAUSE THE CLOCK RAN OUT AND WE COULD NOT SYNCHRONIZE OUR SDAF EFFORTS WITH THE MILITARY DEPARTMENT PROCUREMENT CYCLES FOR SOME ITEMS. THREE-YEAR OBLIGATION AUTHORITY IS CONSISTENT WITH THE GAO'S RECOMMENDATIONS.

ANOTHER LEGISLATIVE INITIATIVE IS "PROCUREMENT FOR PAYBACK." THIS WAS ALSO ONE OF THE GAO'S RECOMMENDATIONS. THE GAO REPORT SAID, "ALLOW SDAF TO PURCHASE EQUIPMENT NOT APPROVED FOR RELEASE TO FOREIGN COUNTRIES. THIS WOULD ALLOW FOREIGN NEEDS TO BE MET BY WITHDRAWING RELEASABLE EQUIPMENT FROM MILITARY SERVICE STOCKS AND REPLENISHING THOSE STOCKS WITH THE ADVANCED NONRELEASABLE VERSIONS PROCURED BY SDAF."

WE ARE DOING SOMETHING LIKE "PROCUREMENT FOR PAYBACK" TODAY FOR NORMAL FOREIGN MILITARY SALES, BUT WE DO NOT RELEASE THE OLDER ITEM FROM SERVICE STOCKS UNTIL THE NEW ITEM IS DELIVERED. THIS LEGISLATION WOULD ENABLE US TO RELEASE THE OLDER ITEM EARLIER BY FUNDING ITS REPLACEMENT IN U.S. STOCKS WITH SDAF.

"PROCUREMENT FOR PAYBACK" WOULD ONLY BE USED AS AN EXCEPTION. WE WOULD MOST LIKELY LIMIT IT TO MISSILE SYSTEMS LIKE AIM-9M, TOW-II, AND STINGER, WHERE THE OLDER MODEL IS SIMILAR TO THE NEWER MODEL IN COST AND CAPABILITIES. WE UNDERSTAND THE CONCERN THAT WE MIGHT BE TEMPTED TO SELL AN ITEM THAT IS MORE SOPHISTICATED, MORE "HIGH TECH" THAN IS NECESSARY. HOWEVER, THE DEFENSE DEPARTMENT IS VERY PROTECTIVE OF ITS TECHNOLOGY, AS YOU KNOW. NONETHELESS, WHEN WE DO NOT HAVE THE "LOWER TECH" ITEM IN PRODUCTION AND FIND IT IN OUR NATIONAL INTEREST TO PROVIDE A MILITARY CAPABILITY TO ONE OF OUR FRIENDS OR ALLIES IN AN EMERGENCY, WE ARE CAUGHT IN THE SAME DILEMMA WE HAD BEFORE SDAF. WE COULD EITHER TAKE IT OUT OF U.S. FORCES' INVENTORY AND CAUSE AN ADVERSE READINESS IMPACT OR WE SELL THE "HIGH TECH" ITEM FROM PRODUCTION EVEN THOUGH IT MAY BE MORE THAN THE COUNTRY REALLY NEEDS AND MORE THAN WE REALLY WANT TO SELL. THIS "PROCUREMENT-FOR-PAYBACK" PROVISION WOULD GUARD AGAINST THAT

EVENTUALITY. ALL SALES WILL STILL BE GOVERNED BY THE ARMS EXPORT CONTROL ACT.

THE FINAL SDAF LEGISLATIVE PROPOSAL FOCUSES ON SOLVING THE PROBLEM OF PERMITTING THE DEFENSE LOGISTICS AGENCY TO USE SDAF TO MEET UNPLANNED FOREIGN NEEDS. DLA HAS RESPONSIBILITY FOR OVER 2.4 MILLION OF THE 4.6 MILLION DIFFERENT CONSUMABLES AND REPAIR PARTS IN THE OVERALL DEFENSE SUPPLY SYSTEM. FOREIGN CUSTOMERS ARE KNOWN USERS OF ABOUT 2.1 MILLION OF THE DLA-MANAGED ITEMS. TODAY, THE LAW PRECLUDES USE OF SDAF BY DLA BECAUSE DLA WORKS ON A STOCK FUND BASIS. DEMANDS AND SALES ARE FORECAST BASED ON HISTORICAL DEMAND AND SALES DATA. WHEN A FOREIGN CUSTOMER'S UNPLANNED DEMANDS CANNOT BE TAKEN INTO ACCOUNT, DLA'S PURCHASING PATTERNS ARE DISTORTED AND THIS CAN HAVE A VERY SERIOUS REAL-WORLD IMPACT ON U.S. FORCE READINESS. WE NEED ONLY ABOUT $50 MILLION FROM SDAF TO PROVIDE TO DLA ON A ONE-TIME BASIS. WE BELIEVE THIS IS A PRUDENT MEASURE TO TAKE, BUT WE NEED LEGISLATIVE AUTHORITY TO DO SO.

TO CONCLUDE ON THE SUBJECT OF SDAF, WE BELIEVE THE OPERATION OF SDAF IN ITS FIRST THREE YEARS HAS BEEN CONSISTENT WITH CONGRESSIONAL INTENT IN LEGISLATING THE PROGRAM. THE PROGRAM IS BEGINNING TO BEAR FRUIT IN FORESTALLING DIVERSIONS WHICH WOULD AFFECT THE READINESS OF U.S. FORCES AND IN RESPONDING TO URGENT NEEDS OF FRIENDS AND ALLIES. WE HAVE PROVIDED CONGRESS WITH FULL INFORMATION ON SDAF, AND HAVE FULLY COMPLIED WITH INFORMAL CONGRESSIONAL SUGGESTIONS WHERE SOME FELT WE WERE EXCEEDING THE CONGRESSIONAL INTENT. THE PROPOSALS WE ARE MAKING THIS YEAR ARE, WITH ONE EXCEPTION, MINOR AND ARE MEANT TO IMPROVE THE MANAGEMENT OF THE PROGRAM WITHOUT CHANGING IT FUNDAMENTALLY. THE CHANGES ARE SUPPORTED BY THE GAO REPORT. WE URGE YOUR SUPPORT OF THESE MEASURES, BOTH THOSE WHICH ARE THE RESPONSIBILITY OF THIS COMMITTEE AND THOSE WHICH WILL LATER BE REFERRED BY OTHER COMMITTEES TO A FULL VOTE OF THE HOUSE.

OTHER INITIATIVES

ANOTHER PROPOSAL WE ARE RESUBMITTING AND WHICH IS OF INTEREST TO APPROPRIATIONS COMMITTEES IS OUR INITIATIVE FOR AUTHORIZATION TO USE FMS ADMINISTRATIVE FUNDS TO AUGMENT MAP FUNDS FOR REPRESENTATIONAL ACTIVITIES. DESPITE RISING COSTS AND THE INCREASED VISIBILITY OF OUR SECURITY ASSISTANCE PROGRAMS, REPRESENTATIONAL FUNDS HAVE BEEN DECLINING IN REAL TERMS. THE LEVELS HAVE BEEN HELD CONSTANT FOR THE PAST FEW YEARS AND THE AMOUNT PROVIDED DOES NOT COVER THE EXPENSES INCURRED BY OUR PEOPLE ABROAD. SINCE THIS PROPOSAL WOULD BE FUNDED FROM THE FMS SURCHARGE PROCEEDS, IT WOULD NOT REQUIRE BUDGET OUTLAYS.

BY THE SAME TOKEN, WE PROPOSE TO RAISE THE AMOUNT AVAILABLE IN THE IMET GENERAL COST LINE TO FUND ACTIVITIES FOR FOREIGN MILITARY STUDENTS RECEIVING IMET TRAINING IN THE U.S. SUCH ACTIVITIES INCLUDE EFFORTS TO PRESENT A BETTER UNDERSTANDING OF U.S. SOCIETY, THE OPERATIONS OF OUR INSTITUTIONS AND THE POSITIVE FEATURES OF OUR WAY OF LIFE AS A COMPLEMENT TO THEIR FORMAL MILITARY TRAINING. SUCH COSTS ARE RISING AND THE NUMBER OF FOREIGN STUDENTS INCREASING, WE ARE REQUESTING $225 THOUSAND, OR ABOUT $25 PER STUDENT, FOR THIS FUNCTION. THIS WOULD STILL BE SUBSTANTIALLY LESS PER CAPITA THAN WE HAD AVAILABLE IN THE RECENT PAST.

A THIRD INITIATIVE FOCUSES ON REPROGRAMMING NOTICES TO CONGRESS FOR THE IMET PROGRAM. RAISING THE THRESHOLD FOR CONGRESSIONAL NOTIFICATION TO $25 THOUSAND WOULD ELIMINATE NUMEROUS TIME-CONSUMING NOTIFICATIONS FOR ACCOUNTING AND COSTING ADJUSTMENTS; PERMIT PROMPT RESPONSE AND REPROGRAMMING EXECUTION OF SMALL, YET POLITICALLY SENSITIVE TRAINING PROGRAMS; AND PERMIT MORE EFFICIENT USE OF FUNDS BY ALLOWING DISCRETIONARY REALLOCATION OF YEAR-END SAVINGS WHEN CONGRESS IS IN RECESS. THIS INITIATIVE ONLY REDUCES THE NUMBER OF NOTIFICATIONS NOW REQUIRED SOLELY FOR PROGRAM INCREASES OF LESS THAN $25 THOUSAND; IT STILL RETAINS NEW COUNTRY PROGRAM NOTIFICATIONS OF ANY AMOUNT.

THERE ARE A NUMBER OF OTHER INITIATIVES ON WHICH THE AUTHORIZATION COMMITTEES MUST ACT, BUT WHICH WE WOULD BE GLAD TO DISCUSS WITH THIS COMMITTEE AS WELL. THESE INCLUDE SEVERAL INITIATIVES RELATING TO TRAINING, TO IMPROVEMENT OF OUR MANAGEMENT OF THE PROGRAM, AND TO FACILITATE OUR SALES TO NATO COUNTRIES.

CONCLUDING REMARKS

MR. CHAIRMAN, LET ME CONCLUDE BY SAYING THAT OUR SECURITY ASSISTANCE PROGRAM IS A LOW COST INVESTMENT IN NATIONAL SECURITY AND, IN ADDITION, A BENEFIT TO THE NATIONAL ECONOMY. IT HELPS THE U.S. RETAIN CRITICAL OVERSEAS BASES AND OBTAIN ACCESS TO OVERSEAS FACILITIES. THE CONTRIBUTIONS OF SECURITY ASSISTANCE ENABLE FRIENDS AND ALLIES TO BETTER COOPERATE WITH THE UNITED STATES IN DEVELOPING VITAL COLLECTIVE SECURITY ARRANGEMENTS, IN SHARING THE COLLECTIVE BURDEN OF DEFENSE AND IN FURTHERING OUR MUTUAL SECURITY INTERESTS. IN THIS REGARD, SECURITY ASSISTANCE SIGNIFICANTLY REDUCES THE LIKELIHOOD THAT UNITED STATES FORCES WILL BE CALLED UPON TO INTERVENE ON THE BEHALF OF OUR FRIENDS.

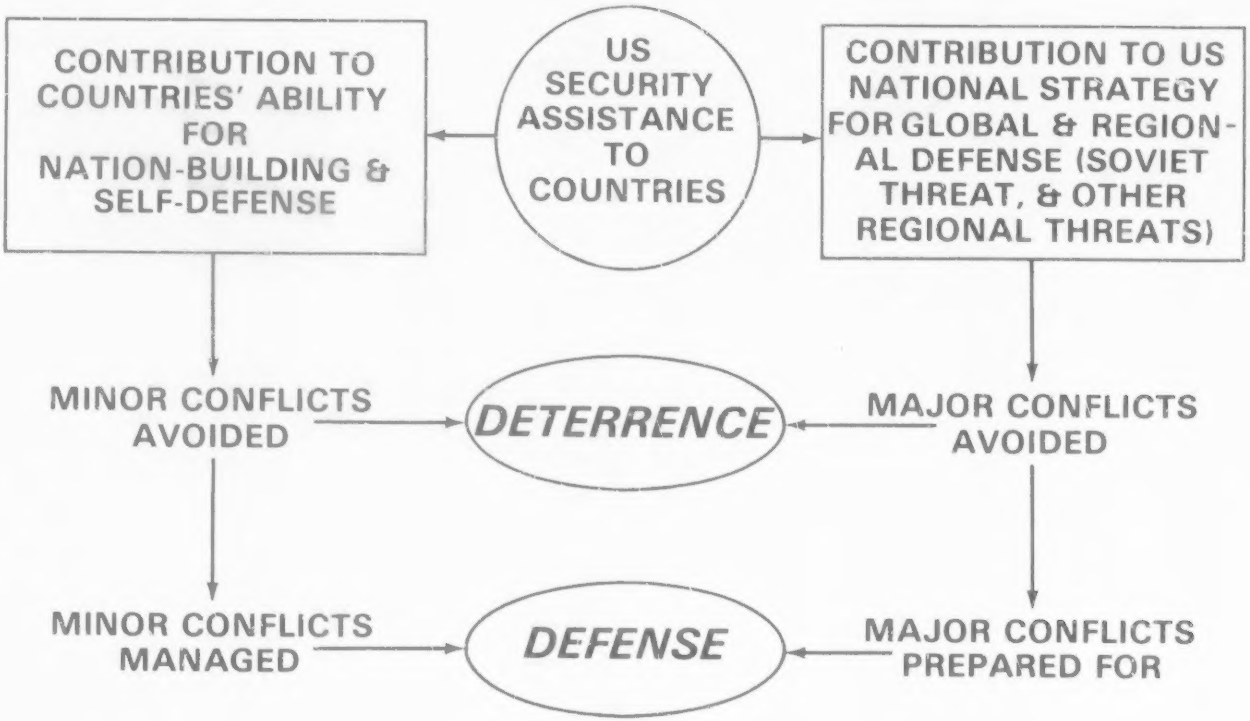
FINALLY, IT IS WORTH NOTING THAT MILITARY ASSISTANCE FINANCING IS NOT A GIVEAWAY PROGRAM. WITH THE EXCEPTION OF THOSE CASES WHERE CONGRESS HAS MANDATED EXPENDITURES OVERSEAS, MORE THAN 98% IS SPENT IN THE UNITED STATES FOR ARTICLES AND SERVICES. THESE EXPENDITURES USED TO FINANCE FOREIGN MILITARY SALES RESULT IN JOBS AND TAX REVENUES AND THEY HAVE A FAVORABLE BALANCE OF PAYMENTS IMPACT. ON THE OTHER HAND, THE PROVISION OF SECURITY IS NOT BASED ON THE BENEFITS FOR THE U.S. ECONOMY NOR SHOULD IT BE LOOKED UPON AS A JOBS PROGRAM. BUT NEITHER SHOULD IT BE VIEWED AS HAVING AN ADVERSE IMPACT ON OUR ECONOMY.

I KNOW I REFLECT THE VIEWS OF THE SECRETARY OF DEFENSE WHEN I URGE THE COMMITTEE TO GIVE FAVORABLE CONSIDERATION TO THE ADMINISTRATION'S SECURITY ASSISTANCE PROPOSALS FOR FY 1986 AND THE PROPOSED LEGISLATIVE CHANGES TO IMPROVE OUR ABILITY TO IMPLEMENT THE PROGRAM YOU AUTHORIZE.

THIS CONCLUDES MY REMARKS. I WOULD BE PLEASED TO ANSWER ANY QUESTIONS YOU MAY HAVE.

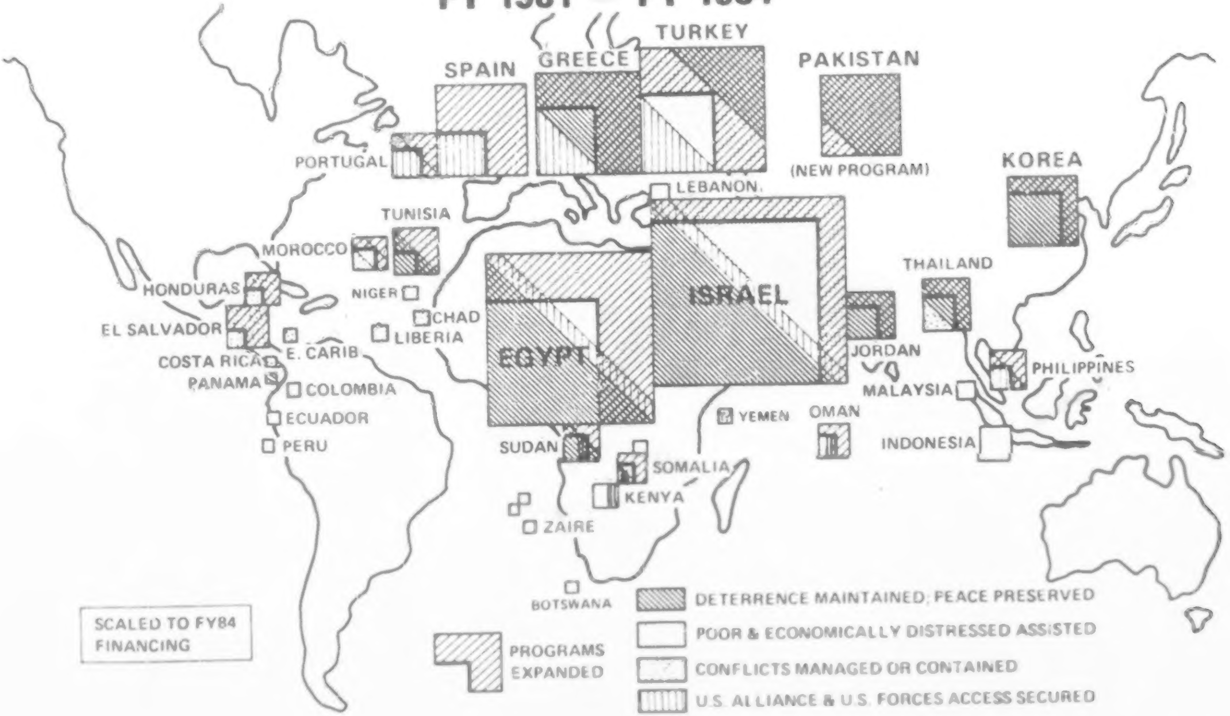
(CHART 1)

SECURITY ASSISTANCE OBJECTIVES


US SECURITY ASSISTANCE TO COUNTRIES
CONTRIBUTION TO COUNTRIES' ABILITY FOR NATION-BUILDING & SELF-DEFENSE
CONTRIBUTION TO US NATIONAL STRATEGY FOR GLOBAL & REGIONAL DEFENSE (SOVIET THREAT, & OTHER REGIONAL THREATS)
MINOR CONFLICTS AVOIDED
DETERRENCE
MAJOR CONFLICTS AVOIDED
MINOR CONFLICTS MANAGED
DEFENSE
MAJOR CONFLICTS PREPARED FOR

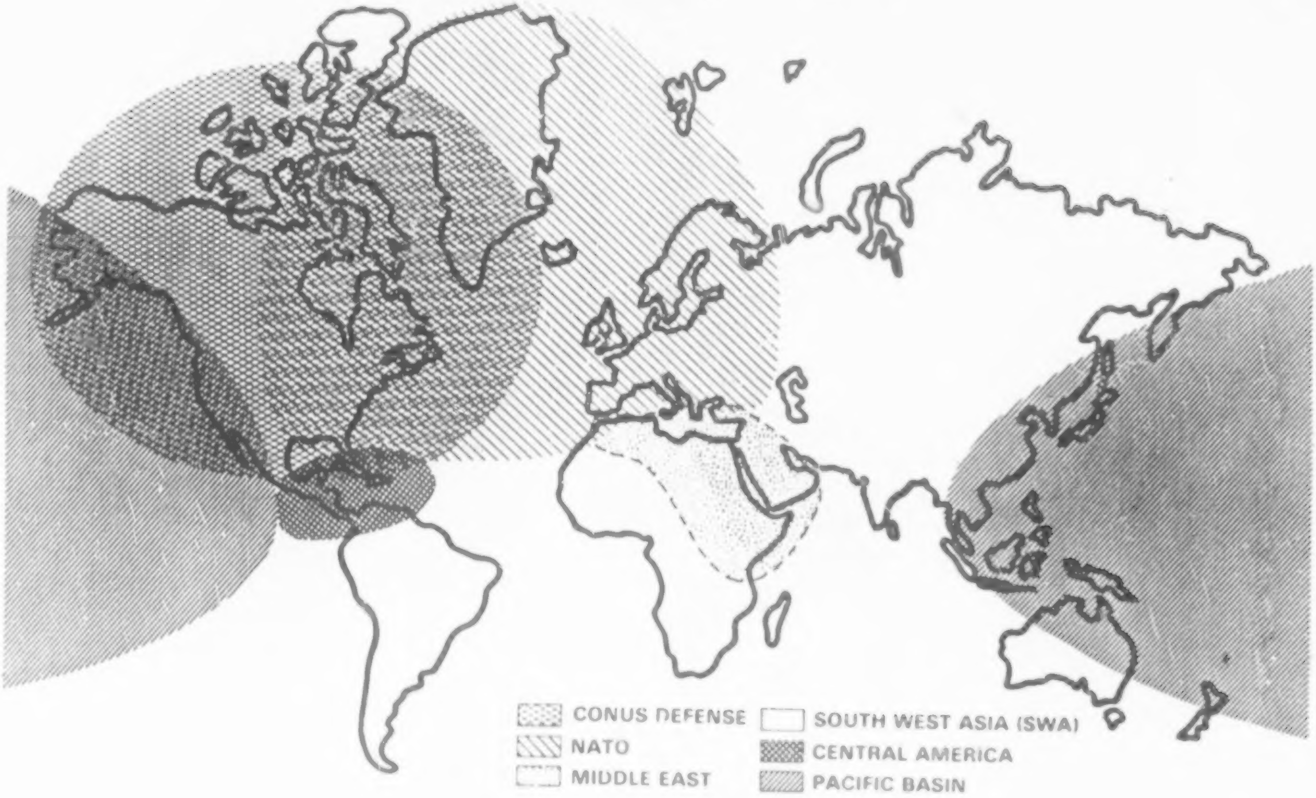
(CHART 2)

CONTRIBUTIONS OF SECURITY ASSISTANCE TO FOREIGN POLICY & NATIONAL DEFENSE FY 1981 — FY 1984


TURKEY
SPAIN
GREECE
PAKISTAN
(NEW PROGRAM)
KOREA
PORTUGAL
LEBANON
TUNISIA
MOROCCO
ISRAEL
THAILAND
HONDURAS
NIGER
CHAD
EL SALVADOR
LIBERIA
E. CARIB
EGYPT
JORDAN
PHILIPPINES
COSTA RICA
PANAMA
COLOMBIA
MALAYSIA
ECUADOR
YEMEN
OMAN
PERU
SUDAN
INDONESIA
SOMALIA
KENYA
ZAIRE
BOTSWANA
SCALED TO FY84 FINANCING
PROGRAMS EXPANDED
DETERRENCE MAINTAINED; PEACE PRESERVED
POOR & ECONOMICALLY DISTRESSED ASSISTED
CONFLICTS MANAGED OR CONTAINED
U.S. ALLIANCE & U.S. FORCES ACCESS SECURED

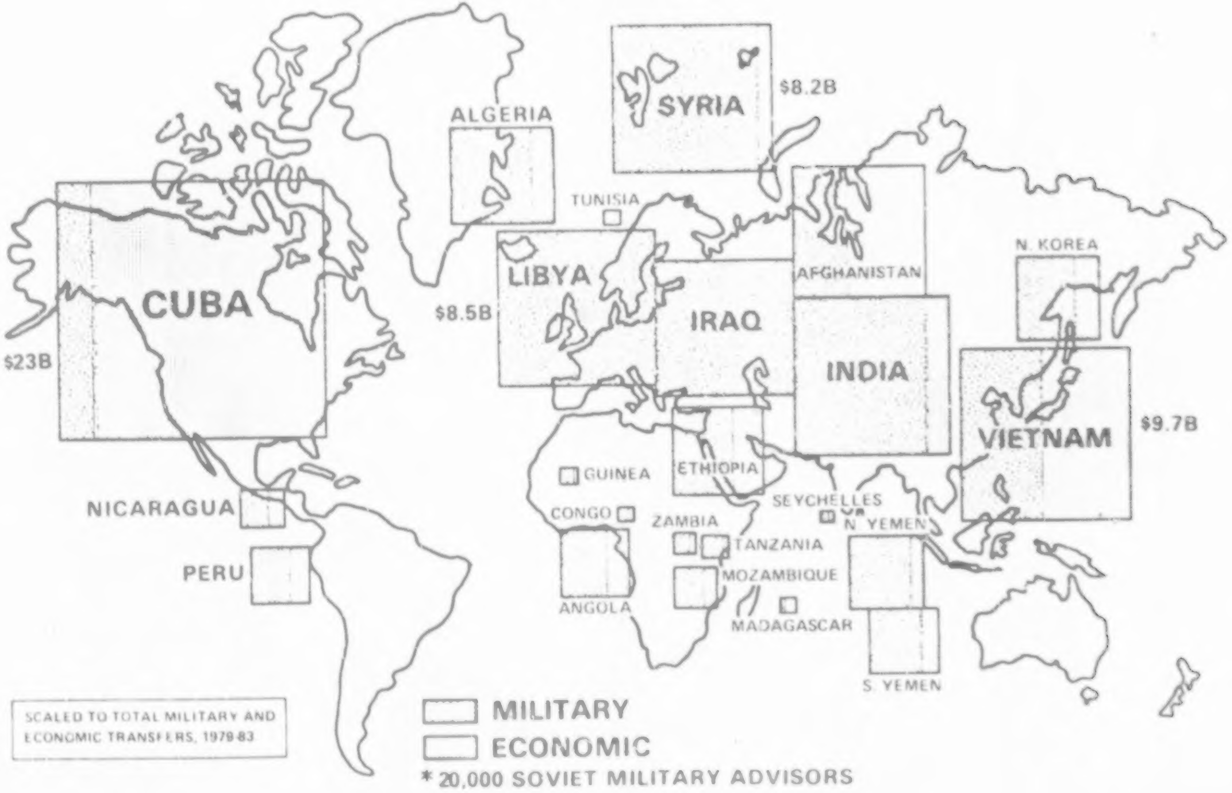
(CHART 3)

STRATEGIC INTERSECTIONS


CONUS DEFENSE
NATO
MIDDLE EAST
SOUTH WEST ASIA (SWA)
CENTRAL AMERICA
PACIFIC BASIN

(CHART 4)

SOVIET MILITARY SALES/ASSISTANCE AND ECONOMIC ASSISTANCE *
(1979 — 1983)


ALGERIA
SYRIA
$8.2B
TUNISIA
LIBYA
$8.5B
CUBA
$23B
IRAQ
AFGHANISTAN
INDIA
N. KOREA
VIETNAM
$9.7B
GUINEA
ETHIOPIA
CONGO
ZAMBIA
SEYCHELLES
N. YEMEN
TANZANIA
MOZAMBIQUE
ANGOLA
MADAGASCAR
S. YEMEN
NICARAGUA
PERU
SCALED TO TOTAL MILITARY AND ECONOMIC TRANSFERS, 1979-83
MILITARY
ECONOMIC

* 20,000 SOVIET MILITARY ADVISORS

(CHART 5)

PLANNING SECURITY ASSISTANCE PROGRAMS

- WITH THE COUNTRY
- COVERING 3-5 YEAR PERIOD
- APPROPRIATE TO COUNTRY NEEDS & THREAT
- TOTAL PACKAGES: ABSORBABLE & SUSTAINABLE
- INTEGRATED WITH ECONOMIC PLANNING
- SOLID BASIS FOR FINANCING REQUEST

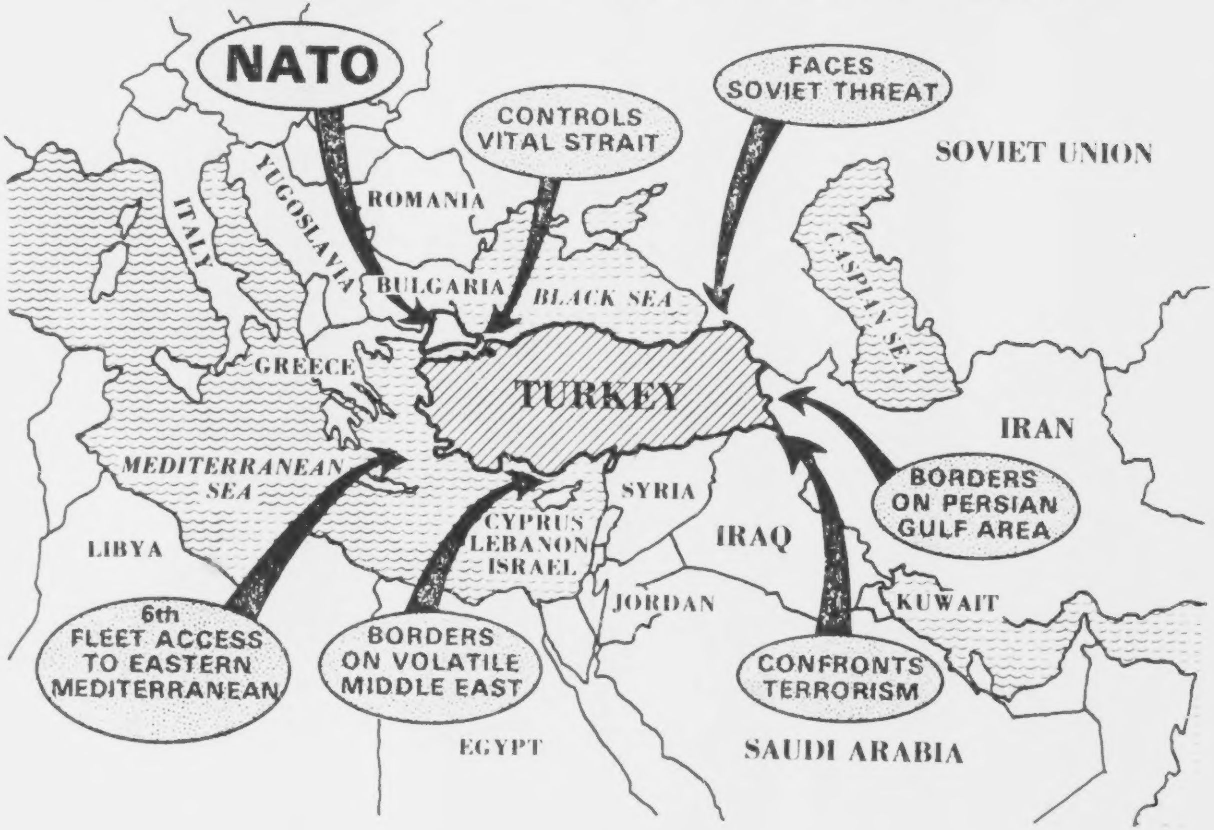
(CHART 6)

EL SALVADOR

ONE YEAR AGO:		TODAY:
UNCERTAINTY/INSTABILITY ELECTIONS AT RISK	— *POLITICAL* —	CONFIDENCE/STABILITY GROWING ELECTIONS HELD
RAPID DETERIORATION INFRASTRUCTURE IN SHAMBLES	— *ECONOMY* —	DECLINE HALTED INFRASTRUCTURE IMPROVING
CIVILIAN DEATHS HIGH HUMAN SERVICES DOWN	— *HUMAN RIGHTS/ EQUITY* —	CIVIL VIOLENCE DOWN HUMAN SERVICES IMPROVING
NATIONAL PLAN DEVELOPED FUNDING/SUPPLY SHORTFALLS	— *SECURITY* —	NATIONAL PLAN IMPLEMENTED FUNDING SHORTFALLS EASED

(CHART 7)

TURKEY AT STRATEGIC CROSSROADS


NATO
CONTROLS VITAL STRAIT
FACES SOVIET THREAT
SOVIET UNION
ITALY
YUGOSLAVIA
ROMANIA
BULGARIA
BLACK SEA
CASPIAN SEA
GREECE
TURKEY
IRAN
MEDITERRANEAN SEA
SYRIA
CYPRUS
LEBANON
ISRAEL
IRAQ
BORDERS ON PERSIAN GULF AREA
LIBYA
JORDAN
KUWAIT
6th FLEET ACCESS TO EASTERN MEDITERRANEAN
BORDERS ON VOLATILE MIDDLE EAST
CONFRONTS TERRORISM
EGYPT
SAUDI ARABIA

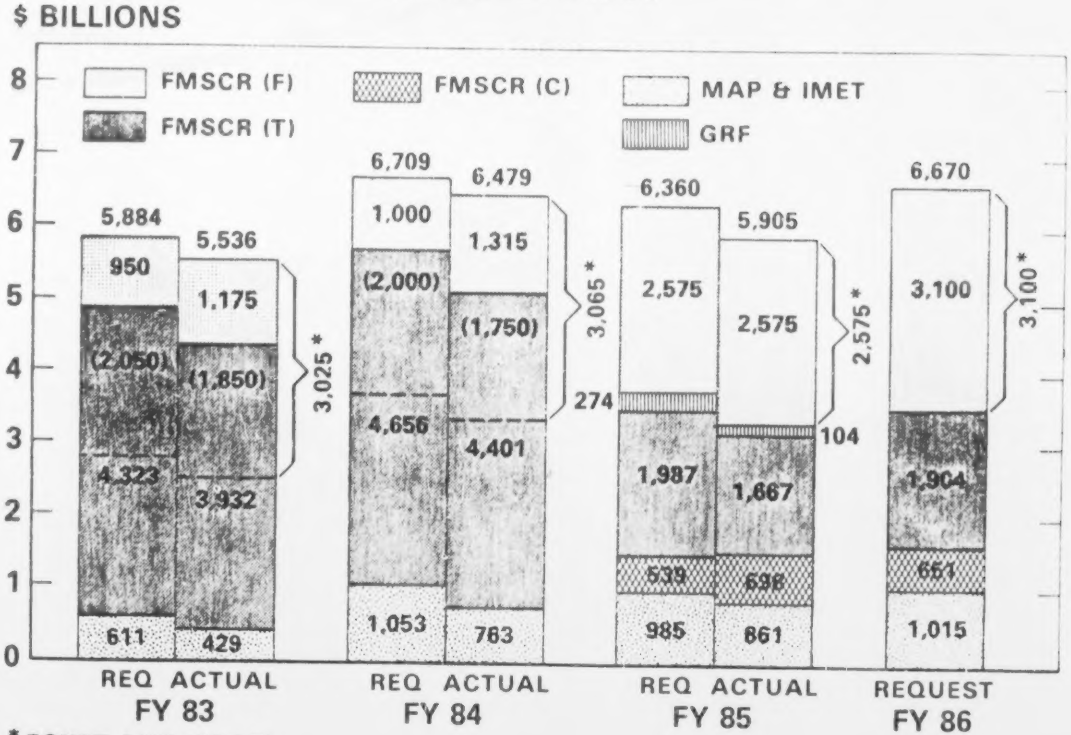
(CHART 8)

ISRAEL & EGYPT

- WE ARE STILL PURSUING THE GOALS OF CAMP DAVID
- WE UNDERSTAND THREATS AND SECURITY NEEDS
- WE PLAN TOGETHER
- WE RECOGNIZE THAT SECURITY REQUIRES STRONG ECONOMIES
- BUT PROGRAMS SHOULD NOT BE SUSTAINED AT THE EXPENSE OF THE REST OF THE WORLD

(CHART 9)

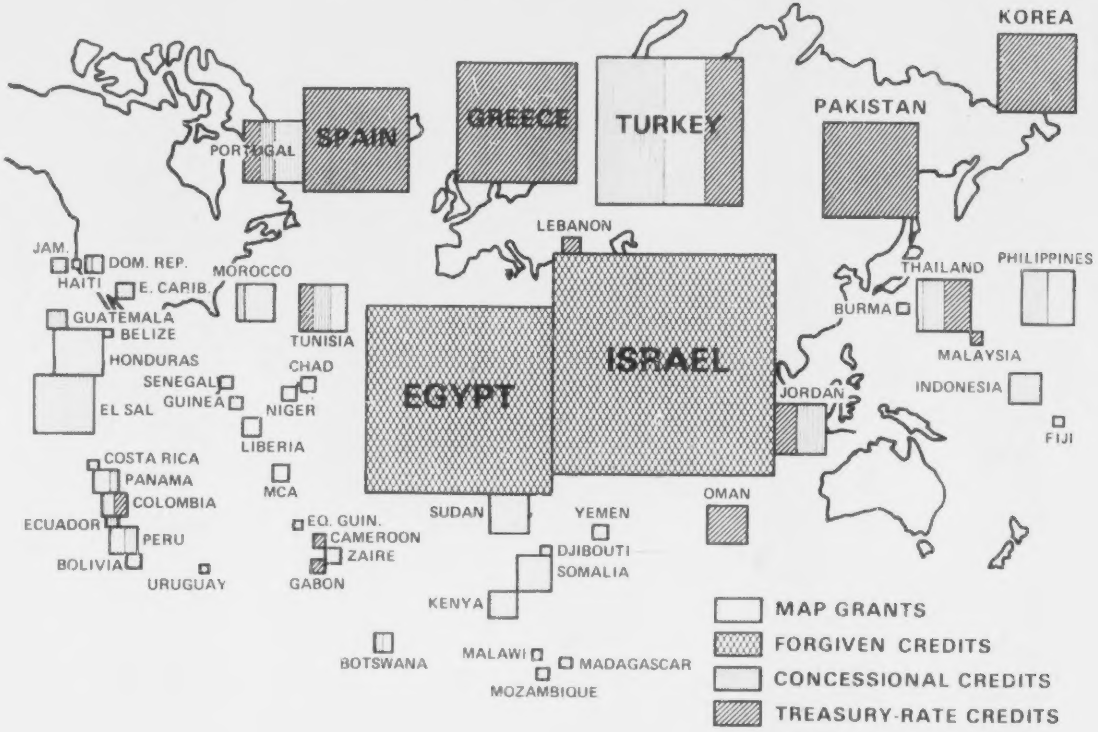
MILITARY ASSISTANCE: FY 83—86
($ MILLIONS)



*EGYPT AND ISRAEL

(CHART 10)

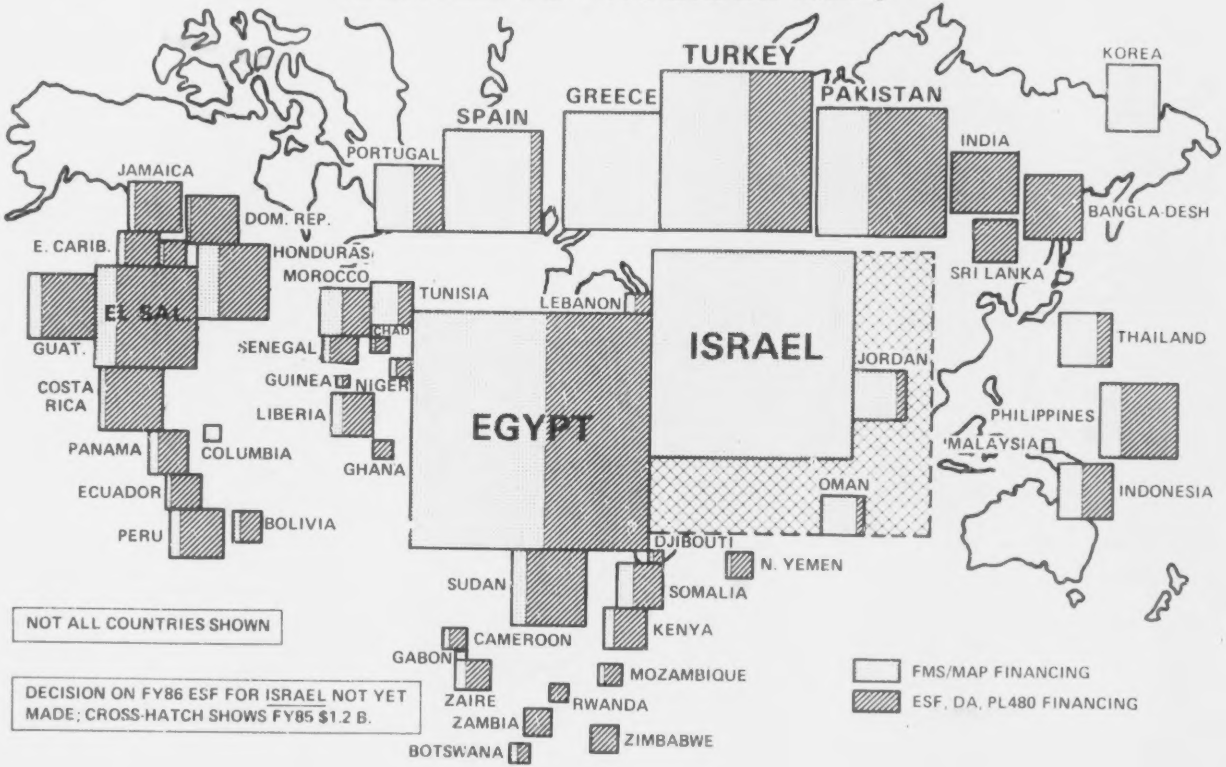
FY 86 FMS/MAP FINANCING REQUEST
(SCALED TO FINANCING)


KOREA
PAKISTAN
SPAIN
GREECE
TURKEY
PORTUGAL
LEBANON
PHILIPPINES
THAILAND
JAM.
DOM. REP.
HAITI
E. CARIB.
MOROCCO
GUATEMALA
BELIZE
TUNISIA
BURMA
MALAYSIA
HONDURAS
CHAD
ISRAEL
EGYPT
SENEGAL
GUINEA
NIGER
EL SAL
JORDAN
INDONESIA
FIJI
LIBERIA
COSTA RICA
PANAMA
MCA
COLOMBIA
OMAN
SUDAN
YEMEN
ECUADOR
EQ. GUIN.
CAMEROON
PERU
ZAIRE
DJIBOUTI
BOLIVIA
URUGUAY
GABON
SOMALIA
KENYA
BOTSWANA
MALAWI
MADAGASCAR
MOZAMBIQUE
MAP GRANTS
FORGIVEN CREDITS
CONCESSIONAL CREDITS
TREASURY-RATE CREDITS

(CHART 11)

FY 86 REQUEST: ECONOMIC & MILITARY PROGRAMS

(SCALED TO PROGRAM SIZE)



NOT ALL COUNTRIES SHOWN

DECISION ON FY86 ESF FOR ISRAEL NOT YET MADE; CROSS-HATCH SHOWS FY85 $1.2 B.

(CHART 12)

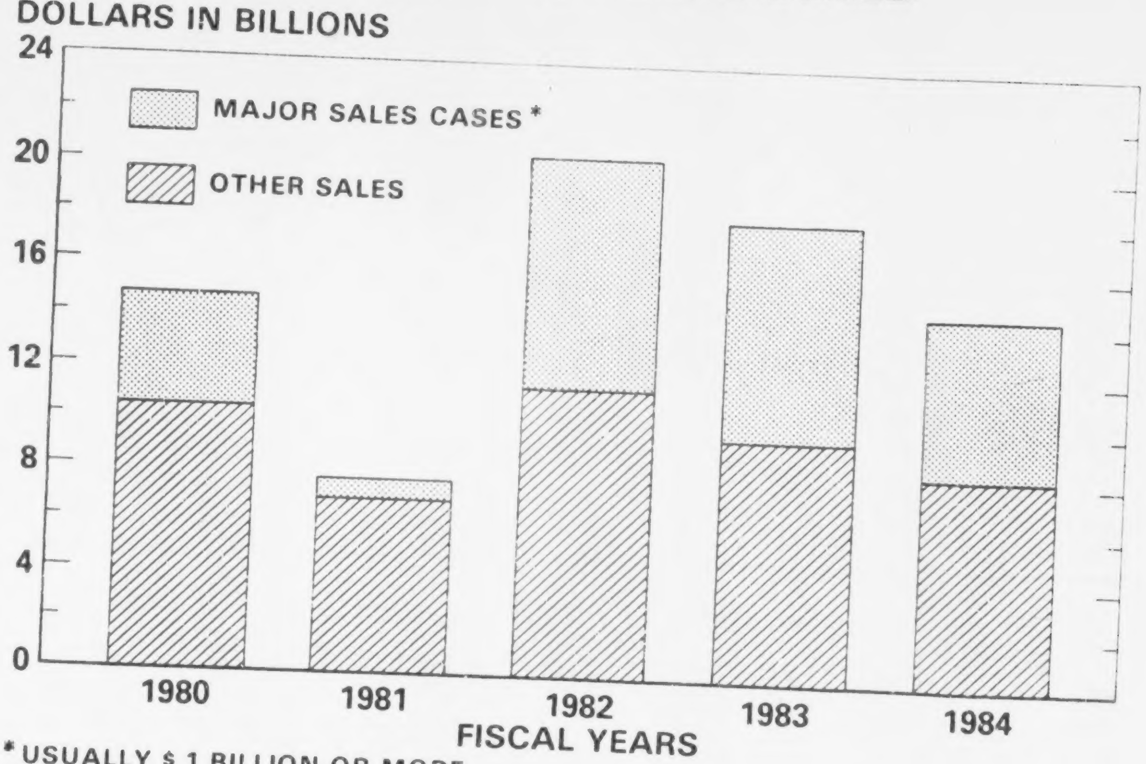
LEGISLATION

- ● NEED AN AUTHORIZATION BILL
- ● H.R. 5119 PASSED BY THE HOUSE
- ● PREVIOUS LEGISLATIVE PROPOSALS STILL NEEDED; RESUBMITTED
- ● IMPORTANCE OF TRAINING PROPOSALS

(CHART 13)

FMS AGREEMENTS FY 1980—FY 1984

INFLATION NOT CONSIDERED



* USUALLY $ 1 BILLION OR MORE

(CHART 14A)

LEGISLATIVE PROPOSALS

(NEW PROPOSALS IN ITALICS)

TRAINING

- PROFESSIONAL MILITARY EXCHANGE
- COAST GUARD TRAINING
- *EXEMPT MILITARY SALARIES*
- REPROGRAMMING THRESHOLD *
- *EXEMPT IMET FROM GLENN-SYMINGTON*
- IMET EXTRAORDINARY EXPENSES *

* REQUIRES APPROPRIATION COMMITTEE ACTION.

(CHART 14B)

LEGISLATIVE PROPOSALS

(NEW PROPOSALS IN ITALICS)

MANAGEMENT

- SAOs WITH MORE THAN SIX MILITARY
- FMS ADMINISTRATIVE USE FOR REPRESENTATIONAL FUNDS
- EXCLUDE FIXED BASE OPERATING COSTS
- WAIVE MAP PROCEEDS
- PENALTIES FOR AECA VIOLATIONS
- *CREDIT GUIDELINES*
- *MODIFY GUARANTEE RESERVE*
- *SDAF REFINEMENTS* *

* ONE OF WHICH REQUIRES APPROPRIATION COMMITTEE ACTION.

[illegible]

(CHART 14C)

LEGISLATIVE PROPOSALS

(NEW PROPOSALS IN ITALICS)

NATO

- RECIPROCAL WAIVER OF CONTRACT ADMINISTRATION SERVICES
- EXCHANGE OF CATALOG DATA
- *PATRIOT AGREEMENT INTO AECA*

(CHART 14D)

LEGISLATIVE PROPOSALS

(NEW PROPOSALS IN ITALICS)

COUNTRY RELATIONS

- REMOVE CHINA PROHIBITIONS
- *SAFETY OF FLIGHT OPERATIONS*
- *10/20 TERMS FOR THAILAND AND PHILIPPINES*

OTHER

- PKO DRAWDOWN
- *AUTHORIZE WRSA AT 360M*
- *ANTI-TERRORISM ASSISTANCE*

TERRORIST WAR AGAINST UNITED STATES

Senator **Kasten**. Mr. Secretary, the terrorist war against the United States has taken a new twist in the last couple of weeks with the terrorist groups in the Middle East threatening the lives of Americans throughout the region if the United States vetoed resolutions condemning Israel in the U.N. Security Council. Despite this threat of terrorist activities, and given the history of these terrorist groups, it is clear that some of our so-called friends, some of whom are receiving economic and military assistance from us, voted for that resolution in the Security Council, necessitating a veto.

If there is terrorist activity, a lot of the blame ought to be placed on some of our so-called friends who sided against us, countries like France, Egypt, India, Peru, and Thailand. Most of those countries receive significant aid, in the case of France, in the past, but these other countries are receiving significant aid. They are on your maps in terms of military aid, but particularly on your maps in terms of economic assistance due to the generosity of the American people.

If, in fact, this terrorist activity does happen, and we can pinpoint it back to that vote—11 countries voted in favor of the resolution, only 3 abstentions, and only 1 country, the United States, voting against—how are we going to explain to the American people that we continue to provide assistance to countries who vote directly against us in international groups such as the United Nations?

U.N. VOTING PATTERNS

Mr. **Schneider**. I think you have raised a very pertinent problem. I know, Mr. Chairman, you have taken the lead in requiring by statute that voting behavior of nations, friendly or otherwise, in the United Nations be taken into consideration with respect to assistance levels. The recommendations of this committee will be taken seriously in this regard. I am sure that this particular incident is one of many that we will take into account when we are dealing with assistance levels.

Senator **Kasten**. I was particularly interested in two of the countries, India and Peru. They were both on the Soviet map plus our map. I look at Peru, $132,589,000 going to Peru just for next year, and that appeared both on the Soviet map and our map, and they are one of those 11 countries that lined up against us in the United Nations. That is not unique, I just couldn't find all the different countries here.

You look at some of these countries, and it really is difficult to continue this kind of open-ended support.

ASSISTANCE TO PERU

Mr. **Schneider**. Mr. Chairman, with respect to Peru, the assistance that we have been providing was related to helping Peru with the disaster associated with the floods in some parts of the country, and drought after the El Nino disturbances to the local climate.

I certainly share your frustration about this, and I can assure you that the voting behavior of countries in the United Nations is taken into consideration when assistance levels are calculated.

Senator KASTEN. Mr. Secretary, the situation with respect to the Israeli supplemental and the ongoing negotiations day by day are beginning to be more and more difficult. I asked Secretary Shultz about this when he testified before us last week. I wonder if you would be able today to give us an update on the current situation with regard to the level of assistance for Israel, and when specifically are we going to be able to have those numbers.

As you know, the Budget Committee process is going on right now. I have made an effort to make certain assumptions in the Function 150 account in the Budget Committee in order to have the dollars available for Egypt and Israel, but more importantly to have the dollars available for some of the programs that we are discussing here today, which are in the process of getting squeezed out. But the fact that the administration has not come forward with an indication, particularly with regard to the supplemental, is creating, I think, a very difficult problem, and in the end, I think, it is going to have a negative impact on our overall programs.

$1.2 BILLION FOR FISCAL YEAR 1986

Mr. SCHNEIDER. Thank you, Mr. Chairman. I understand that problem. I was specifically requested today to inform you that the administration does support the $1.2 billion that the committee put into the 150 account in its action in the Budget Committee last week. It will take some additional time before the appropriate supporting documents are prepared to address the fiscal year 1985 supplemental, but I have been authorized to indicate formally that we do support the $1.2 billion in 1986.

With respect to fiscal 1985, discussions are still underway with Israel about a supplemental, and the outcome there is not yet resolved. I don't have a specific statement to offer about when that will be resolved, but in the interest of supporting the recommendation that you and Chairman Domenici have made about the fiscal 1986 level, we did want to indicate that we are supporting the $1.2 billion level for the baseline ESF program for Israel.

Senator KASTEN. That is a step, but we still have several problems relating to the supplemental. I hope very much that the administration will come forward with a firm decision on this, I think it would help all of us in deciding what we want to do.

GRADING OF SALVADORAN ARMY

General, you had a chart about Central America, and specifically El Salvador. We have heard very little over the last few months about the so-called "barracks mentality" of the Salvadoran Army, something that was a great subject of discussion before this committee and others up until about a year ago.

I would like to know how you and the military grade the Salvadoran Army. I guess all of us feel that we are moving in the right direction, but I would like to ask you specifically how you would grade them.

Second, last spring, we on this subcommittee were very concerned about the death rate of wounded Salvadoran soldiers. One of the requests that came to us from the administration was the urgent request to have medivac equipment and other kinds of medical help.

Would you tell us, first of all, if the death rates of wounded soldiers have improved, if the statistics have improved somewhat; and second, have all the helicopters and the medical evacuation equipment been delivered, or do we have some equipment still to be delivered?

First of all, would you give us an evaluation of the armed forces, and second, if you could talk specifically about the medivac helicopters and equipment.

General GAST. Thank you, Mr. Chairman. I will speak to the medical aspect.

Throughout the funding, no matter what level it was and where it came, we insisted on having an investment in the medical aspect. The funds that came from the request for the supplemental last year have been employed and designated for helicopters specially equipped for medivac, as well as some 30 ambulances which have been provided.

We have a heavy investment in the military training teams for the El Salvadorans. They now have people in each of the battalions and companies that are equipped to take care of people. Funds have also been provided to create the capability of two hospitals, one in San Salvador and one in the east as well, and that has had a major impact upon the security of the people, in reducing the death rate, but more importantly or as important, I think, in turning the soldiers around so they can get back into the field.

As far as the military goes, their capabilities, and how they are performing, we have always put a very heavy investment in training, wherever that training occurred, so as to develop the leadership and the tactics and the mobility. Along with that training, the continuing support that is provided by Congress and our Government to them has given the Salvadorans high esprit, I think, compared to what they had, and a willingness to go out and find the guerrilla and beat him in the field, and to protect their strategic assets, as they must. We have undertaken to ensure as well that the munitions and the support that is needed will continue to come. Funds have also been used for helicopter mobility, fire support, and other things that they needed.

Compared to last year, there have been great improvements, and I believe that the guerrillas recognize that as well.

MEDICAL EQUIPMENT TO SALVADORAN ARMY

Senator KASTEN. Has the medical equipment all been delivered?

General GAST. There will always be continuing small amounts to add to the capabilities of the hospital, more training, more supplies. We are, in fact, using $1 million of the funds to give small supplies to the Salvadoran Army so that when they go in the field, they can treat the villagers and leave supplies behind.

Senator KASTEN. I would like to ask, if you could, for the record, provide us with specific information in terms of death rates of wounded compared to a couple of years ago. At one point, about 2 or 2½ years ago, we had death rates of wounded that exceeded those of World War II.

General GAST. I will provide that.

Senator KASTEN. I think that the committee would be interested in that, and those are facts, I think, that the people might be interested in knowing about.

General GAST. Yes, sir.

[The information follows:]

DEATH RATE COMPARISONS OF SALVADORAN ARMY

Comparative figures for calendar years 1983 and 1984 are:

	1983	1984
WIA	1,980	1,587
KIA	1,254	921
Total casualties	3,234	2,508
KIA:WIA ratio	1:1.5	1:1.72

STRATEGIC IMPORTANCE OF TURKEY

Senator KASTEN. On the maps, Mr. Secretary, the general pointed out the importance of the geographic and the strategic importance of Turkey. On the subcommittee, as both of you know, we have also recognized the geographic, political, and strategic importance of Greece, as well. We have traditionally tried to work with and to balance those two programs. We have in a couple of cases increased funding for Greece.

EVENTS IN GREECE

I would like to ask you, Mr. Secretary, if you could give the committee your assessment or your interpretation of the recent events in Greece. I think we are particularly interested in knowing whether you feel that this means a further deterioration of relations between that country and the United States, and possibly you or General Gast would like to comment on whatever military significance the present trends, particularly our base agreements there, might have, and what we might be working from.

POLITICAL DEVELOPMENTS IN GREECE

Mr. SCHNEIDER. Mr. Chairman, are you referring to the recent political developments?

Senator KASTEN. Yes.

Mr. SCHNEIDER. As of today, there have been no direct adverse consequences from internal political developments in Greece. We assume that Greece will continue to live up to its obligations within the NATO Alliance, and specifically with respect to the basing agreements that we have. We will certainly encourage them to do so. We have a very substantial security assistance request of half a billion dollars before this committee, and we think that request is in balance and both meets the needs of Greece and supports its role in the NATO Alliance.

We are hopeful that whatever internal political developments take place in Greece, which are, of course, national and internal concerns of Greece, do not in any way disrupt their participation in NATO or their relations with the United States.

Senator KASTEN. Do you want to add something?

General GAST. I would only agree with Dr. Schneider. We are very concerned about the political situation, of course. We believe that Greece plays a vital role in NATO, as each of the countries do, and we hope that we will be able to pursue our common objectives that way.

We believe that their military requires modernization, and so does Turkey. We will just have to see how the situation develops, and we are very concerned about it.

SUBMITTED QUESTIONS

Senator KASTEN. Because of time constraints, I am going to conclude this hearing at this time. There are a number of questions which I know other members of the subcommittee have. We will submit those to you in writing, and you can get back to us. I have a number of other questions also, but I have got to return to the Budget Committee.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR KASTEN

U.S. MILITARY AID TO FIGHT SALVADORAN INSURGENCY

Senator Kasten: There are some who have criticized the type of military assistance we provide to those nations involved in an insurgency, these critics claim we spend too much to provide high technology to these nations, which forces them to allocate scarce resources to maintaining technical equipment.

How do you respond to this claim?

Secretary Schneider: This claim is uninformed. We are very mindful of the fact that countries like El Salvador have inadequate human and financial resources with which to maintain so-called high technology equipment. We would be engaged in a self-defeating assistance program if we saddled the El Salvadorans with equipment they could not maintain. We specifically review all equipment we provide to ensure that it is at the lowest feasible level of technology consistent with the Salvadoran Armed Forces successfully meeting the threat posed by guerrilla tactics.

Senator Kasten: Do we have figures addressing deadline rates for equipment we provide to El Salvador?

Secretary Schneider: We do not have comprehensive figures for deadline rates for the equipment we provide to El Salvador under our security assistance program. We are aware that sometimes bottlenecks have developed in the Salvadoran logistics system causing equipment to be deadlined and are working closely with the Salvadoran Armed Forces to correct these deficiencies.

U.S. ASSISTANCE TO MOROCCO

Senator Kasten: Over the long haul, Morocco has proved to be one of the best friends the United States has in that part of the world, as well as being one of the more constructive voices on Middle East and Arab affairs. Obviously, there has been somewhat of a setback because of Morocco's relationship with Libya, but that does not appear to be something of any substance or something that we have to worry about.

I am concerned that the requested levels of security assistance for Morocco are inadequate, given that country's need both economically and militarily.

Why hasn't the Administration been more generous with its request for the Moroccan programs and would you comment further on your view of the current situation as it affects our relationship with that country?

Secretary Schneider: The Administration's request for worldwide assistance funds has been drawn up with full regard to the present overall budgetary situation. With regard to Morocco we have tried to maximize the usefulness of the funds requested by tailoring our assistance to the present state of the Moroccan economy.

In response to Morocco's balance of payments problems, we have sought to shift assistance toward grant. In order to provide more flexibility, we established an Economic Support Fund (ESF) account in FY 84, which we sought to augment for FY 86. Development programs have focused on rainfed agriculture. We also hope to assist in developing private sector enterprise through our ESF program which can lead to expansion of exports. In the field of military assistance we have moved to shift the bulk of the assistance from FMS loans at commercial interest rates to MAP and FMS at concessional rates in view of the great burden which FMS loans place on Morocco in its current economic situation.

Our economic and security assistance to Morocco supports a firm friend and a strategically located geo-political partner. Despite differing views on how to deal with Colonel Qadhafi, the economic, political, and military reasons for USG assistance to Morocco remain. Morocco's present financial and economic straits (drought, accelerating food/energy imports, depressed phosphate prices and reduced foreign worker remittances), exacerbated by the steadily appreciating dollar and including an external debt of $12 billion, have resulted in a serious BOP problem and increased the Moroccan government's perceived need for U.S. economic assistance.

SECURITY ASSISTANCE: MOROCCAN FIVE-YEAR PLAN

Senator Kasten: I understand that some time back Morocco submitted a five-year plan to the Defense Department, but that you have basically been sitting on that plan.

What is its status and how are you responding to that plan?

Secretary Schneider: For several years we had been seeking from the Moroccans an integrated, prioritized and realistic projection of their overall military assistance needs to assist us in coping with the long lead-times involved in the preparation of our annual security assistance budget submission. During the Joint Military Commission meeting in Rabat last May, the Moroccan army, navy and air force each gave us a separate list of its equipment, munitions and support requirements over a five-year period. The Moroccan estimate of the US security assistance "share" of the cost is $200 million per annum. This sum is far in excess of the amount required for operation and maintenance of US-origin equipment already in the Moroccan armed forces inventory that has largely determined current security assistance funding levels for Morocco in the context of current, world-wide funding limitations. The five-year plan will be the focus of discussions with the Moroccans at the Joint Military Commission meeting here in Washington on May 9-10.

UNITED STATES SCHOOL OF THE AMERICAS

Senator Kasten: This is a question that I would have asked Secretary Shultz had I received the letter from him prior to his testimony with reference to the United States School of the Americas.

As you know, USARSA has moved from Panama to a temporary site at Fort Benning, Georgia. While I am pleased the Secretary's letter emphasizes the temporary nature of this action, I am concerned with the knowledge that the U. S. Military and some in the State Department are pushing very hard to have a permanent site for this facility in the United States. It is only fair for me to impress upon you now that we cannot support such a facility in the United States out of foreign assistance funds. If the military wishes to have the training in the United States, they can pay for the facility out of DOD funds and the training can be purchased by IMET funds.

What we should do is relocate the school off the shores of the United States, and under those circumstances, this Subcommittee can continue to provide financing.

I would solicit your comments on my statement regarding this issue.

Secretary Schneider: As noted in the Secretary's letter to you of March 7, after careful consideration we concluded that the USARSA function should be preserved. The nature and purpose of USARSA are the key to the appropriateness of the continued use of security assistance funds for the school.

USARSA provides a broad range of military training in a form specifically tailored to Latin American security assistance needs. Aside from the regional specialization of USARSA, all instruction is in the Spanish language and attendance is limited to students from Latin America; in contrast, in our Service schools only English is used and we integrate foreign military trainees with U.S. students for whom the schools were specifically established. This makes USARSA separate and distinct from the Army military school system which is established to meet U.S. training requirements.

You note that USARSA should be relocated off the shores of the United States. We have not come to that conclusion, or ruled out such possibility. This question will be thoroughly addressed in the study the Secretary discussed in his March 7 letter. We will keep you advised as the study progresses and will review our findings with you as soon as possible.

I appreciate your comments and views on this matter and we will keep them in mind as we continue our review of USARSA's future.

EGYPT: REQUEST FOR ADDITIONAL ASSISTANCE

Senator Kasten: President Mubarak of Egypt is currently in the United States and is seeking a significant increase in the economic program for his country from the United States. What is going to be the United States' response to that plea by President Mubarak?

Secretary Schneider: We intend to assure President Mubarak of our sympathetic understanding of Egypt's economic problems but to caution him that our ability to provide additional assistance will be constrained by our own budget problems.

CYPRUS SITUATION

Senator Kasten: From the press reports I have seen, it appears that there is a constitutional crisis going on in Cyprus with the legislative branch blaming its leader for the breakdown of the talks with the Turkish Cypriots. Can you give us an update on the situation in Cyprus and how this latest event affects the overall prospects for a settlement of the issues on that island?

Secretary Schneider: The Cypriot House of Representatives has passed two resolutions censuring President Kyprianou for not accepting the agreement proposed by the Secretary General at the January summit. Since that summit, the Secretary General has held a series of meetings with senior representatives of the Government of Cyprus, including with President Kyprianou in Geneva on March 11, in an affort to work out an agreeable framework for proceeding toward a settlement. It is not clear what effects the censure resolutions in the Cypriot House of Representatives may have on prospects for an overall settlement.

CYPRUS ASSISTANCE FUNDS

Senator Kasten: The Congress earmarked $15 million under the Economic Support Fund for Cyprus in FY 1985. Can you give us an idea of how these funds have been expended, and what amount has been obligated as of this date?

Secretary Schneider: We plan to divide the $15 million in ESF for the current year evenly between the two categories of assistance we have sponsored the past few years -- scholarships and developmental assistance. To date none of these FY-85 funds have been obligated.

ISRAEL AND THE LAVI

Senator Kasten: For the past two years, the U.S. Congress has earmarked funds for research and development of the Lavi in the United States and procurement in Israel of defense articles and services for the Lavi program.

You mention in your justification material that the proposed FY 1986 FMS program for Israel includes development of the Lavi. How much of the $1.8 billion are you projecting will be for the Lavi?

Secretary Schneider: In the Israeli FY-86 military assistance request, on which we based our proposed figure of $1.8 billion, $400 million is tentatively identified for Lavi.

Senator Kasten: How is the Lavi program progressing?

Secretary Schneider: We have no first hand information on the status of the Lavi program. The Israelis have told us that they are committed to development and production of the aircraft.

MILITARY ASSISTANCE TO THE PHILIPPINES

Senator Kasten: One of the potential trouble spots as we consider appropriations legislation this year is the program for the Philippines. Can you give the committee a brief rundown of the current situation there, both econonomically as well as the military threat from rebel groups in that country?

Will the military assistance you are requesting be adequate to insure that the Philippine military can successfully combat the insurgency there?

Secretary Schneider: Our security assistance request for the Philippines is designed to address the critical needs of a key allied nation facing a combination of political, economic and security problems, as well as to support a vital defense relationship including key support facilities for US forces. Including Development Assistance and PL 480, we have requested a total of $275 million in aid to the Philippines, $173 million of which is economic. We believe this balance well reflects current needs.

The basic framework for our request is a Presidential "best efforts" commitment made in connection with the five-year review of our Military Bases Agreement in 1983. By letter to President Marcos, the President indicated his intention to seek a total of $900 million in security assistance during the five-year period beginning in FY 85. Our security assistance thus relates closely to our ability to maintain unhampered use of Clark Air Base, Subic Naval Base and related installations, and facilities that are crucial to our capability to protect the sea and air lanes of the region and to provide logistical support for US forces in the Indian Ocean and Persian Gulf.

Our request for a total of $100 million in military assistance ($50 million MAP/$50 million FMS) aims at making up some of the shortfall in military assistance resulting from last year's Congressional action, when $45 million in proposed FMS for FY 85 was shifted to ESF. The Presidential letter specifies that a total of $425 million in military assistance ($125 million MAP/$300 million FMS) will be sought during the five-year period. With military assistance reduced to $40 million in FY 85, we need to begin to increase military assistance over the base-line level of $85 million if we are to fulfill the President's commitment during the five-year period.

Equally important in determining the level of military aid for FY 86 is the AFP's concrete need for such assistance if it is to mount an effective military response to the insurgency challenge. Our Military Assistance Group in Manila estimates that due to the combined effects of inflation and devaluation the purchasing power of the Armed Forces of the Philippines in 1985 is only half of what it was in 1983. The reduced level of FY 85 military assistance will be almost totally absorbed by operations and maintenance costs in support of existing inventory. Serious AFP shortcomings in maintenance, logistics, transportation, communications and training can only be overcome through adequate levels of foreign assistance. Over the next few years military assistance levels at least equal to those embodied in the five-year Presidential commitment are essential if the Philippine Armed Forces are to address successfully the insurgency.

BALANCE OF ECONOMIC AND MILITARY ASSISTANCE

Senator Kasten: I do understand from reading your justification material that you want to play "catch up" on military assistance to the Philippines due to the switch of $45 million in the continuing resolution from FMS to the ESF account. You state in your budget submission:

"In light of the shift of $45 million in proposed FMS to ESF in FY 85, the levels of assistance proposed for FY 86 represent an effort to ensure that the total amount of military assistance (MAP plus FMS) envisaged in the President's best efforts commitment is provided during the five-year period, while economic assistance continues to respond to current needs."

However, aren't you opening yourselves up to a lot of criticism, especially considering you say in your budget submission that "the Philippines is experiencing its most critical economic crisis since World War II."

A $25 million increase in the military assistance program over FY 1985 levels, while at the same time requesting $95 million in ESF -- the same as last year's request -- does not jibe with the "critical economic crisis" you describe -- don't you agree?

Secretary Schneider: Including Development Assistance and PL 480, we have requested a total of $275 million in aid to the Philippines for FY 86, $173 million of which is economic. We believe this balance well reflects current needs. Moreover, the Philippines receives economic assistance from a number of countries and international institutions. The U.S. is the sole donor of military assistance. In 1984, military assistance represented only seven percent of total foreign assistance to the Philippines.

As it seeks to cope with economic crisis, the Philippine Government also faces the challenge of a growing communist-led insurgency. The root-causes of the insurgency are political and socio-economic, and must be addressed as such. At the same time, the insurgency poses a military challenge requiring an effective military response. Exchange shortages and budgetary constraints have severely restricted resources available to the AFP to play its role in a comprehensive approach to the problem.

MULTINATIONAL FORCE AND OBSERVERS (MFO)

Senator Kasten: You say in your justification material that the "MFO budgets for the first few years were principally engineering estimates for a unique undertaking, including construction and start-up costs, rather than projections based on operating experience."

We have had surpluses each year, which have been applied to the following year's budget. These surpluses have ranged from $5 million to $12.4 million.

I believe it is time to start projecting on operating experience rather than the way you have been doing it. The U.S. Congress is supportive of the Multinational Force, and will continue to be.

But I believe we are going to have to be more realistic about that budget request -- especially this year when the crunch is on to save money wherever we can.

Can you reduce that MFO request from $28 million to $23 million?

Secretary Schneider: I agree entirely that MFO budgets should become more realistic. We made this point repeatedly at the meeting in November which we and the other contributing countries -- Egypt and Israel -- had with the MFO to discuss its FY 1986 budget. The result was a $6 million reduction in the FY 1986 budget, from $105 to $99 million. Since we pay one third, our share dropped from $35 to $33 million. The MFO was unwilling to reduce its 1986 budget further, however, because of the uncertainty about the cost of the new contingent to replace Australia's eight helicopters and associated personnel. Given the expense of helicopter operations, the MFO feared there might be a substantial increase in this element in the MFO budget. As I explained earlier, negotiations are underway with a potential replacement. A $5 million reduction in our share would require equivalent reductions in the shares of Egypt and Israel, for a total reduction of $15 million in the MFO budget for FY 1986. It is unlikely that a reduction of this magnitude will be feasible; however, we will encourage the MFO to make whatever reduction proves to be possible.

MIDDLE EAST SECURITY STUDY

Senator Kasten: Secretary Shultz testified that the administration is embarking on a comprehensive review of our security interests and strategy in the Persian Gulf, focusing on how our various programs in the security field complement our efforts in the peace process and contribute to the general stability of the region.

When will this review be completed? The subcommittee would be interested in seeing that review.

Secretary Schneider: We are making satisfactory progress on the study. When it is complete, we will consult with the Congress. In the meantime, we are not initiating the sale of major new weapons systems while the review is underway, but we are proceeding with programs already notified and with routine notifications to Congress. Following the review, and based on its conclusions, we will make decisions on the content and timing of further major sales to Middle Eastern states. I wish to emphasize that this is an assessment of our policies within the context of longstanding and important security relationships with countries in the region--including Israel and moderate Arab states. We expect no fundamental changes in our policy or in our commitments to states in the region.

THE IRAN-IRAQ WAR AND PERSIAN GULF SHIPPING

Senator Kasten: Can you bring us up to date on developments in the Iran-Iraq war, and specifically the threat to shipping in the Persian Gulf?

Secretary Schneider: Iraq's heavy repulse in mid-March of a major Iranian offensive across the Hawaizah marshes was an important development in the war. It highlighted the disparity in aircraft, artillery and armor in Iraq's favor. Iraq is now pressing for a comprehensive ceasefire and a negotiated settlement of the war by increasing pressure on Iran through continued attacks on Gulf shipping and aerial bombing of Iranian population centers, including Tehran. Iran, which is retaliating with what appear to be SCUD-B missile attacks on Baghdad, refuses negotiations or a settlement with an Iraq led by Saddam Hussein but is seeking to limit the effects of the war. Iran is calling for a restoration of the prior ceasefire for civilian areas, renunciation of CW, a limited prisoner exchange and suspension of attacks on ports and shipping.

Medical evidence from the Iranian war casualties being treated in Europe indicates that Iraq did use chemical weapons during the fighting in mid-March 1985. The State Department spokesman has discussed this and has expressed unequivocal United States condemnation of Iraqi's illegal use of chemical weapons.

Just before this battle, the ceasefire with regard to civilian population centers, arranged through the UNSYG in June 1984, broke down. Iran claims that Iraqi attacks on March 4 on the unfinished nuclear power plant at Bushehr and the steel plant at Ahwaz breached the mutual abstention from attacks on civilian areas which had been observed since the UN-brokered agreement of last June. Iran holds that its March 5 shelling of Basra was in retaliation. From this point, the attacks escalated on both sides, and Iran launched its ground assault on March 12.

We have just seen a period of intense activity at the UN centering on the Secretary General's Office and the Security Council. In New York, Iraq's demand for a process leading to a general cease-fire and negotiated settlement has confronted Iran's exclusive focus on an end to CW use and to attacks on civilian areas. Neither goal has been achieved. The Security Council President made a statement on March 15, but the Council has not voted on or passed a resolution on the war. Secretary-General Perez de Cuellar issued a statement on March 26 calling for "the earliest possible cessation of hostilities, followed by progress toward a negotiated settlement". In the same statement he stressed his abhorrence of the renewed use of CW. Our mission at the UN, while not seeking a highly visible and individual role in this matter, has actively supported all moves to end this tragic, wasteful, and dangerous war.

Subsequently, soundings with the two parties about mediation to end the fighting have foundered on continued Iranian refusal to discuss a general cease-fire. These soundings were carried out by the President of Gambia, as head of the Islamic Conference peace committee, the UN Secretary General and by India. We expect that Iran will do its best through SCUD retaliation and public and private diplomacy to end or reduce Iraqi air attacks, in order to resume its own war of attrition against Saddam Hussein. We foresee no short-term change in the situation as a result of the contrasting Iraqi and Iranian strategies.

In the Persian Gulf, Iraq has continued its attacks on ships it suspects of trading with Iran, while Iran continues to retaliate against ships going to neutral ports. Since January 1, at least 22 ships have been attacked by Iraq and Iran, including 13 tankers. One tanker has been sunk so far this year. Most of the attacks have been by Iraq, and their frequency has increased over the past month.

Largely because of the type of weapons involved and the manner in which they are being used, losses of both seamen and ships have been less than anticipated when these attacks began a year ago. The attacks have resulted in some increase in insurance rates for Gulf shipping, causing Iran to further discount its oil prices and to institute a shuttle operation to reduce the need for most ships to call at Kharg Island to load oil. These attacks are having little, if any, effect on the world oil market at this time.

Attacks on neutral shipping are nonetheless of serious concern to us in light of our traditional commitment to the principle of free navigation in international waters. U.S. policy remains as reflected in UN Security Council Resolution 540, which called, inter alia, for a cease-fire for shipping and inland ports precedent to a general end to the fighting. Iraq accepted the Resolution, provided Iran would accept it, in keeping with Iraq's desire to end the war. Iran has not.

QUESTIONS SUBMITTED BY SENATOR HATFIELD

EL SALVADOR - MILITARY ASSISTANCE

Senator Hatfield: Is it contemplated by El Salvador and the U.S. that civil defense forces would take over the static defense of El Salvador from the Armed Forces?

Secretary Schneider: No, civil defense units will not take over static defense from regular army units. The civil defense concept is designed to help the civilian residents of villages and towns where there is not a regular army presence to protect themselves against small guerrilla units. Through training in civil defense procedures by Salvadoran army personnel, the civilians learn to repel small scale attacks by the guerrillas. In contrast, National Police Infantry Battalions are being placed in towns subject to frequent attacks by larger guerrilla units, thereby assuming the purely military role of static defense. They will not be a part of the regular police force in these towns and will not have police duties, but will be in the military chain of command.

Senator Hatfield: Should this proposal be approved by the U.S., would an increase in the levels of military assistance to El Salvador be required? What levels of funding would be required? Would the provision of military assistance for civil defense require changes in present U.S. law? If so, what changes would be required? If not, how does that interpretation avoid prohibitions on training of local police units through the Foreign Assistance Act? Please provide me with any documentation of that decision, such as decision papers, legal memos, etc.

Secretary Schneider: The United States does not train the civilians involved in the Salvadoran civil defense program. We do train regular military personnel in civil defense procedures, which are military in nature. These personnel in turn become the civil defense trainers, traveling throughout El Salvador establishing civil defense programs. No US security assistance funding is required for this program, other than the funds used for the initial training of the military personnel. The civilians involved in the civil defense program in the towns and villages of El Salvador are by definition neither police or military personnel. No question of US law is involved since section 660 of the Foreign Assistance Act prohibits training or assisting police forces and there is no police or law enforcement involvement in the civil defense program.

EL SALVADOR - MILITARY ASSISTANCE

Senator Hatfield: How many colones (and equivalent dollar amount) is the government of El Salvador providing for military and security assistance in 1985?

Secretary Schneider: The budget of the Government of El

Salvador provides 674.7 million colones (U.S. dollars 269.9 million) for military and security expenditures in 1985. This figure constitutes 27.8 percent of the national budget and 5.2 percent of the GDP.

Senator Hatfield: How does this level compare with the period of 1980-1984?

Secretary Schneider: The figures for the period 1980-1984 are as follows:

	Millions of colones	Millions of dollars	As percent of budget	As percent of GDP
1980	236.6	94.6	14.4	2.6
1981	299.5	119.8	15.6	3.4
1982	354.8	141.9	18.2	3.9
1983	399.3	159.7	21.6	4.1
1984	535.7	214.3	22.7	4.8

Senator Hatfield: Does the 1985 figure reflect any reductions due to the U.S. providing funding for such items as rations, fuel, logistical support or the costs to equip the El Salvadoran Navy?

Secretary Schneider: The U.S. Government is planning to provide 62.6 million dollars in FY 1985 for fuel, rations, logistic support, and navy equipment. We expect total Salvadoran security and military expenditures, exclusive of U.S. assistance, to continue to rise in 1985 because of the increased costs of supporting more personnel and a larger fleet of vehicles.

The United States will begin shortly to train National Police Infantry Battalions. These units will perform purely military duties on a permanent basis, mainly the static defense of towns and economic/public utility targets often attacked by the guerrillas, thereby freeing the regular army units now defending those towns and installations to perform offensive combat operations. The National Police Infantry Battalions will be police in name only in that they will no longer perform police duties, but will have a purely military function and will be in a military chain of command, coming under the direct control of the local brigade commander. Since this is the case, there is no conflict with section 660 of the Foreign Assistance Act.

The equipment and training for the National Police Infantry Battalions is being provided under the current security assistance program for El Salvador.

SALVADORAN MILITARY AID ARREARAGES

Senator Hatfield: How much of the El Salvadoran military purchases in FY 84 remain unpaid by the GOES? What portion of these unpaid purchases are covered in the 1985 military security assistance budget of El Salvador? How do these levels compare over the same 1980-1985 period for non-military and security assistance?

Secretary Schneider: All FY 84 Salvadoran military purchases from the U.S. were made using MAP grant funds and have been paid. Since 1980 El Salvador has made $63 million of military purchases from the U.S. with Foreign Military Sales (FMS) credits. Of this total $3.9 million remain unpaid due to the delayed payment schedules provided for in the FMS contracts. To date, all FY 85 U.S. military assistance to El Salvador has been comprised of MAP grant funds. El Salvador has not incurred any arrearages related to non-military U.S. assistance.

TRAINING CENTER AT LA UNION

Senator Hatfield: What is the level of funding being provided out of U.S. military assistance to El Salvador for training activities at La Union, El Salvador? Is expansion of that center being planned or considered by El Salvador or the U.S. in FY 85 or FY 86?

Secretary Schneider: Total U.S. military aid programmed through FY 86 for training at La Union amounts to $17.348 million.

In FY 85 the Salvadoran armed forces provided $125,000 for internal construction of facilities, bunks, mess halls, etc.; an additional $250,000 for similar purposes is projected for FY 86. In addition, the Salvadoran military is planning to purchase land to the east and south of the Center in FY-86.

The U.S. plans to use $5.75 million from reprogrammed FY 85 RMTC MAP funds to upgrade the NBTC (classrooms, supply warehouse, security assets, ranges, etc.); an additional $4.25 million of these funds will be used to purchase training ammunition and transportation assets.

Senator Hatfield: Does the U.S. or El Salvador contemplate that the center might replace the RMTC as the site for the training of El Salvadoran soldiers? What training can be conducted at La Union that cannot be conducted at RMTC? How many soldiers have been trained at La Union since it opened? In FY 86? At what unit size?

Secretary Schneider: We have been unable to resolve the issue of continued Salvadoran training at the RMTC so training of Salvadoran soldiers will take place at La Union and the U.S. rather than a central regional facility, the RMTC.

A total of 4,937 Salvadoran military personnel have been trained or are currently being trained at the NBTC by U.S. trainers or U.S.-Salvadoran joint training cadres since the Center opened in January 1984.

In 1986 a total of 7,030 personnel will be trained at La Union. This number includes 4,000 recruits who will participate in a 15-week Program of Instruction of basic training and 3,030 comprising 5 anti-terrorist infantry battalions.

Senator Hatfield: Why are there two training facilities in Central America for the training of El Salvadoran troops? Will troops from other nations be trained at La Union? If so, what commitments have been made? Who will pay for this training? Will it be sufficient to sustain the training facility?

Secretary Schneider: Salvadoran troops have not trained at the RMTC in Honduras since September 1984. Salvadoran troops therefore do not receive U.S. training in Central America at any site other than La Union.

We do not anticipate other country participation at La Union.

RMTC NEGOTIATIONS

Senator Hatfield: As you know, the FY 85 Continuing Appropriations Act contains several prohibitions on the availability of funds for the RMTC until certain conditions are met. In addition, the Honduran government shut down the RMTC last year for purposes of training soldiers from El Salvador. Therefore, there are several issues that arise given these circumstances. First, what is the status of negotiations between the U.S. and Honduras regarding the use of the RMTC, particularly for the training of El Salvadoran troops? If an agreement has been reached, how many troops will train there from El Salvador and Honduras and under what conditions (i.e. unit size, cost, etc)?

Secretary Schneider: Our goal had been to build a permanent Regional Military Training Center (RMTC) accessible to all friendly countries of the region, including El Salvador. During the past several months we engaged the Hondurans in extensive discussions on the future of the RMTC. Those discussions did not resolve all the issues.

We reached preliminary agreement on a set of General Principles to govern the operation of the Center. We did not, however, resolve the issue of terms for continued Salvadoran training and there was a lack of progress toward compliance with Congressionally mandated conditions regarding the settlement by the Honduran Government of property and business claims by an American citizen that are associated with the RMTC's establishment and operation.

Since FY 84 supplemental funds for the RMTC could not be obligated by the March 31, 1985 obligation deadline, it was necessary to reprogram the funds so they might be used for training friendly Central American forces. We have allocated this $18.5 million as follows: $10 million for El Salvador; $5 million for Honduras; $2 million for Costa Rica; $1.5 million has been set aside for RMTC closing costs, should that become necessary.

The reprogramming allows us to move ahead with the Central American training programs, even if they cannot take place at the RMTC.

Senator Hatfield: Secondly, are there any discussions or negotiations taking place between Honduras, the U.S. and other nations regarding training taking place at the RMTC? If so, what nations would train there and how many troops would be trained? Who will pay for the cost of training these troops? What level of troop commitments and funding would be required for the RMTC to be a sustainable regional training facility?

Secretary Schneider: The Costa Ricans have already begun training at the Regional Military Training Center in Honduras. Currently there are 45 officers of an immediate reaction battalion being trained there. This training is funded with Costa Rican FY 84 MAP funds provided under the Continuing Resolution. We are not aware of discussions about other foreign participation at the RMTC. Since the U.S. is providing trainers based on funds from participating countries' individual security assistance programs, there is considerable flexibility in scheduling RMTC training.

Senator Hatfield: Lastly, given the on-going dispute between the government of Honduras and Mr. Ramirez, are alternative sites for the RMTC being explored? If so, what sites are being considered? What would it cost to construct a new facility? What would be done with the building and equipment at the present site?

Secretary Schneider: Since the GOH has to date been unable to comply with Congressionally mandated conditions on the Ramirez claims and Salvadoran training, we have reprogrammed the FY 84 supplemental funds that could not be obligated for the RMTC by March 31. Our reprogramming allocation includes $1.5 million for possible closing of the RMTC. Training for Honduran, Salvadoran and Costa Rican soldiers will take place in the respective countries' own training facilities and the U.S. rather than a central, regional facility, the RMTC. The buildings and equipment at the present site, if no further progress on future development is possible, will be disposed of according to appropriate Foreign Military Sales regulations.

Senator Hatfield: Given the Honduran decision to exclude El Salvadoran troops from the RMTC, will this decision pose any difficulties in the future should El Salvadoran troops return to be trained at the RMTC? Were there any incidents between Honduran and El Salvadoran troops from the opening of the RMTC in 1983 to the time the decision to exclude the El Salvadorans was made?

Secretary Schneider: To date we have been unable to obtain Honduras' agreement on terms for continued Salvadoran training but we would not want to foreclose a change in the Honduran position. A traditional border dispute and memories of the 1969 war between Honduras and El Salvador make military cooperation between these countries difficult. It is conveivable that a breakthrough in ongoing border negotiations would lessen the intensity of Honduran public opinion against the training of Salvadorans at the RMTC.

PURCHASE OF THE F5-E AIRCRAFT BY HONDURAS

Senator Hatfield: What is the status of the purchase of F5-E aircraft by Honduras? How will funding of that purchase add to the cost of military assistance to Honduras over the next five years? What impact will such aircraft have on the military balance between Honduras and Nicaragua, as well as between Honduras and El Salvador?

Secretary Schneider: Honduras has not requested F-5 aircraft, and we are not considering such sales at this time. While many authorities credit Honduras with air superiority in Central America, I would note that the Honduran Super Mysteres aircraft are aging, and El Salvador's inventory has increased, particularly in terms of rotary wing aircraft. Nicaragua's massive military buildup includes a half dozen of the world's fastest, best armed attack helicopter, the Mi-24/HIND D.

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Senator Hatfield: As you know, negotiations on the second replenishment of IFAD have been on-going for nearly two years. Is it my understanding that these discussions have reached such a point that at the next IFAD negotiating session in early April a final agreement is anticipated? Should there be an agreement, will the State Department submit a budget amendment and authorizing legislation to provide funding for IFAD in FY 1986? If not, why not?

Secretary Schneider: It is true that progress was made at the most recent session of IFAD II negotiations. However, a number of issues have yet to be resolved--including the willingness of the U.S. to accept a 40%-60% burden-sharing ratio. Our position on this issue is currently under review.

Should a replenishment be finalized at the next session of negotiations (which have now been rescheduled for May 16 and 17), the Administration may consider a budget amendment and authorizing legislation.

No decision has been made on this issue and will not be made until/unless agreement on a second replenishment is acheived.

QUESTIONS SUBMITTED BY SENATOR INOUYE

EGYPT-JORDAN: ROLE OF U.S. AID

Senator Inouye: In your prepared remarks, you note "modest positive developments" in the search for peace in the Middle East. Among them, you cite the resumption of diplomatic relations between Jordan and Egypt.

Do you have reason to believe that our assistance to Jordan and Egypt encouraged the resumption of diplomatic relations between these two Arab states?

Secretary Schneider: It is not easy to show a cause and effect relationship. In general, however, U.S. political and material support has contributed to the security of Egypt and Jordan to the extent that they feel strong enough to take bold steps in the face of threats from terrorists and radical states in the area. It is highly unlikely that President Sadat would have taken the dramatic steps toward peace with Israel had he not been confident of strong U.S. support.

Likewise, Jordan's security was a major consideration in King Hussein's decision to break from the Arab consensus and risk the wrath of Syria, Libya and Palestinian extremists by renewing full diplomatic relations with Egypt. Terrorists have in fact carried out several assassinations and attempted assassinations of prominent Jordanians since Jordan resumed relations with Egypt. Hussein's perception of the willingness of the U.S. to provide security assistance will have a significant influence on how far he will go in the current peace process activity.

EGYPT-ISRAEL: ROLE OF U.S. AID

Senator Inouye: Do you have reason to believe that our assistance to Egypt, particularly in consideration of requests by Egypt for increases in that assistance, can facilitate the resumption of full diplomatic relations between Egypt and Israel? What should be the U.S. role in encouraging the return of the Egyptian ambassador to Israel? Would you regard that as a positive development?

Secretary Schneider: First, let me point out that diplomatic relations between Israel and Egypt have not been cut. The relationship has been growing warmer and recent developments, such as exchanges of high-level emissaries between President Mubarak and Prime Minister Peres, indicate that further improvements may be on the horizon. Active communications have continued through the respective countries' embassies in Tel Aviv and Cairo in spite of the absence of the Egyptian ambassador. The Israeli ambassador has remained in Cairo.

The Egyptians say they will return an ambassador, withdrawn in the wake of the Sabra and Shatila massacres in Beirut, when there is withdrawal of Israeli forces from Lebanon, improved conditions on the West Bank and Gaza and progress toward resolution of the Taba dispute. This position has been formulated with sufficient latitude to permit considerable flexibility in interpretation.

The process of total Israeli withdrawal from Lebanon is well under way and the Egyptians have noted positively actions the new Israeli government has taken with regard to the Palestinians in the occupied territories. These moves and the resumption of the Taba talks give some cause for optimism.

U.S. aid has been an important factor in our Middle East diplomacy. We assist Egypt in order to bolster its participation in the peace process and because, as the largest military power in the area after Israel, it is a force for moderation and stability in a strategically important part of the world. U.S. assistance has been one constant, tangible benefit which Egypt has derived from the Camp David process and the peace treaty with Israel. President Sadat sold the idea of peace with Israel to a war-weary Egyptian population in part on the promise of increased prosperity, and they have pinned their hopes for economic development on the willingness of the U.S. to provide assistance.

The U.S. role has been and will continue to be that of encouraging the two parties to be flexible in their search for ways to improve relations.

We view the Egyptian-Israeli relationship as the foundation of any comprehensive Middle East peace and we therefore would view improvements in that relationship to be very positive.

MIDDLE EAST PEACE PROCESS

Senator Inouye: You have also noted, as a positive development, the reaction of Israeli Prime Minister Peres to Egyptian President Mubarak's proposal for direct negotiations between Israel and a Jordanian-Palestinian delegation. What are the details of this proposal by President Mubarak? Has the Department learned anything more about it as a result of the Egyptian President's visit to Washington?

Secretary Schneider: President Mubarak has advanced various suggestions in an effort to move the peace process forward. We had very useful discussions with President Mubarak during his visit to Washington. We agreed to seek practical steps that would maintain and build on the momentum which has already been created. We also agreed that we should discuss President Mubarak's ideas further with Jordan and Israel.

Senator Inouye: Can you provide the Committee with any additional information on Prime Minister Peres' reaction to the proposal? How have other elements in the Israeli National Unity Government reacted to the idea?

Secretary Schneider: Prime Minister Peres has stated that Israel is prepared to negotiate with a Jordanian-Palestinian delegation, but not with the PLO. For its part, Israel's cabinet has proposed negotiations with Jordan without preconditions.

Senator Inouye: What information do you have on the readiness of Jordan to participate in direct negotiations? What about a Palestinian delegation? Would it, necessarily, have to be a PLO delegation?

Secretary Schneider: King Hussein has stated his support for a peaceful settlement based upon Security Council Resolution 242. He has launched an initiative with the Palestinians to achieve a common approach to negotiating such a settlement. The Jordan-PLO Agreement can serve as an important step forward in the current process. In our view, the goal of current efforts should be direct talks between Israel and Jordan, with Palestinian participation.

Senator Inouye: Do you think that U.S. assistance to Jordan will have a positive impact on Jordan's willingness to participate in such discussions?

Secretary Schneider: I believe that Jordanian confidence in the continuing support of the United States will be an essential element in its decision on whether to enter direct negotiations.

JORDANIAN FMS

Senator Inouye: In fiscal year 1986, Jordan must pay $86,298,000 in principal and interest on previously contracted FMS debts; it will receive $95,000,000 in FMS loans. In colloquial terms, it appears that Jordan is running faster and faster just to stay even.

It appears in the FMS account that Jordan will receive only $8,702,000 in net assistance. Do you agree?

Secretary Schneider: To subtract repayment of past FMS credits from currently available FMS credits and refer to the difference as "net assistance" is misleading. FMS offers a line of credit, to speak colloquially, not payments assistance. Current FMS credits cannot be used to repay past borrowings. They facilitate purchase of military equipment, while repayments are made out of available national funds, including, in the case of Jordan, sizable subsidies from its Arab neighbors.

Senator Inouye: How does the proposed assistance improve Jordan's ability to enhance its defense capabilities?

Secretary Schneider: The proposed assistance will help Jordan finance purchases of additional U.S. military equipment in its force modernization program. Elements of this program that we anticipate at this time will include an upgrade of F-5aircraft and the Improved Hawk air defense system already in

Jordan's inventory, and purchase of additional communications equipment, tactical vehicles and stocks of ammunition and spare parts.

Senator Inouye: How does the proposed assistance advance U.S. interests?

Secretary Schneider: Jordan is of great importance to regional stability. It plays a key role in the peace process, in maintaining the security of its border with Israel, and in inhibiting the extension of Soviet influence. In addition, because Jordan lies athwart lines of air and land communication to the east, the maintenance of a stable and pro-western government there contributes to the security and freedom of the overall region, which is of vital importance to the West.

Senator Inouye: Is there any intention, proposal, plan, or, however else you wish to characterize it, thought of providing Jordan Stinger missiles in Fiscal Year 1986?

Secretary Schneider: The Administration has been stating publicly since withdrawal of Congressional notification of the sale of Stinger air defense missiles to Jordan in March 1984 that it was prepared to resubmit notification.

Senator Inouye: What of the Jordanian Logistics Program. Does the Administration intend to revive that proposal?

Secretary Schneider: This Administration remains committed to the stability and legitimate defense needs of Jordan and our other friends in the region, and wants the U.S. to be seen as a reliable defense partner. In this connection programs like the one to which you refer have considerable importance to us. This particular program is classified. At present the Administration is not asking for funds in support of it.

Senator Inouye: Other than a continuation of efforts that have gone on before, what initiatives does the Administration propose to encourage Jordan to participate in the "Middle East Peace Process"?

EXIMBANK DIRECT LOAN PROGRAM

Senator Inouye: In your prepared statement, you have indicated that increases in security assistance proposed for fiscal year 1986 will be "more than offset in other parts of the overall international affairs budget function 150." What are the other parts of which you speak? Do you have reference to the proposed elimination of the Eximbank direct loan program?

If, as is likely, the Congress provides funding for the Eximbank direct loan program, how, in your view would the budget function 150 be adjusted? Would you tell the Committee how you would apply a reduction of say, $1.5 billion in the proposed budget?

It appears as though there is a fair amount of wishful thinking in the 150 budget proposals. Are you prepared to make adjustments in your programs, if the Congress provides funding in the range of $1.5-2.0 billion for the Export-Import Bank direct loan program?

What specific adjustments would you have to make? Would you find it necessary to eliminate country programs?

You have said, "we have prepared a security assistance proposal that represents the minimum level of resources necessary to meet our foreign policy/national security needs." Does this mean that, if adjustments are required by Congressional action in non-security assistance parts of the 150 budget function, you will seek to increase the function total to accomodate the security assistance request? Does it mean that, if the Congress provides less than the amount requested, you will seek supplemental funding to make up what is called the "unfunded portion" of the budget?

Secretary Schneider: I am, of course, referring to our proposed elimination of the Eximbank direct loan program. As the President has made clear in his numerous statements on the budget, we believe our proposals concerning Eximbank are justified. During a period of fiscal austerity and resource constraints, we can no longer justify a major program of subsidized export credits which mainly benefit Americas' largest corporations.

If the Congress sees fit, despite our recommendation, to provide substantial funding for eximbank, then reductions will have to be made elsewhere in the 150 function. Such reductions, given the funding constraints which have already limited the magnitude of our request, would undoubtedly require us to adjust our foreign policy/national security policies in a number of areas. However, no decisions have been made as to where such reductions would be taken, nor has any consideration been given to date to the idea of an FY 1986 supplemental request.

Secretary Schneider: We do not anticipate changing our position, nor producing another initiative. The Administration stands by President Reagan's Middle East peace initiative of September 1, 1982. The positions and principles presented then remain valid. We continue to hold that real progress towards peace can be achieved only through direct negotiations, based on UN Security Council Resolution 242. In addition, Jordan has been taking steps to be able to participate in the peace process, and we hope Jordan will be able to do so this year.

Senator Inouye: How do you propose to upgrade the Improved Hawk air defense system already in Jordan's inventory?

Secretary Schneider: In December 1984 Jordan accepted a Letter of Offer and Acceptance for the PIP II Product Improvement Package for the Improved Hawk. This package, which has been sold to many other I-Hawk recipients, will upgrade the system's electronics so as to improve its performance, reliability and maintainability and to ensure commonality for standardized logistics.

SECURITY ASSISTANCE FOR THE IVORY COAST

Senator Inouye: Secretary Schneider, you have stated that security assistance "provides a means of demonstrating U.S. constancy and willingness to stay the course in support of nations whose survival constitutes a basic purpose of our foreign policy."

Would you say that security assistance proposals for the Ivory Coast during the Reagan administration evince this constancy?

Secretary Schneider: Yes. The US military assistance program for the Ivory Coast has been very consistent. We have provided funds for an IMET (International Military Education and Training) program since 1980. The program began with a modest grant of $30,000 and has grown in accordance with Ivorian requirements to $125,000 for FY 86.

Senator Inouye: More than $12 million in security assistance was provided to the Ivory Coast in fiscal year 1984 and less than $200,000 is proposed for fiscal year 1986. How does this demonstrate constancy?

Secretary Schneider: The US has never had a MAP program for the Ivory Coast. The $12 million referred to in the Senator's question reflects a typographical error in the printing of the Congressional Presentation Document.

MILITARY ASSISTANCE FOR EQUATORIAL GUINEA

Senator Inouye: In this season of budgetary restraint, why is the administration proposing a new program of military assistance for Equatorial Guinea?

Secretary Schneider: The proposal to begin a small MAP program for Equatorial Guinea in FY 86 had its origin in 1983. While the Administration realizes that severe US budgetary constraints certainly affect the Foreign Assistance request, we have been working diligently to implement a small, but meaningful military assistance program for Equatorial Guinea for some time. FY 86 is the year that the program was designed to begin. To delay the initiation of the MAP program for a year or more would have serious ramifications both in terms of the US policy towards and credibility with Equatorial Guinea and the type and quantity of the military assistance we are prepared to provide.

Senator Inouye: Is the proposal for Equatorial Guinea also the product of "an intensive interagency process which thoroughly reviewed each program"?

Secretary Schneider: Yes. The potential program was carefully thought out and is based on a survey of the status and requirements of the Equatorial Guinean armed forces, primarily the naval forces. The potential program was debated and studied for over two years before it appeared as a proposal in the FY 86 CPD.

Senator Inouye: Which agencies and departments participated in this "extensive interagency process"?

Secretary Schneider: In the development stage of the program, the Departments of State and Defense coordinated closely. Within those agencies the Africa Bureau, the Bureau of Political Military Affairs, and the Office of the Undersecretary for Science, Technology and Security Assistance in State, and the Office of International Security Affairs, the Defense Security Assistance Agency, the Joint Staff and the military services staffs in the Pentagon all coordinated and commented on the proposed program. In the budget development phase, these same offices plus OMB, ACDA, Treasury, and the NSC studied and coordinated on the request. This is the same procedure that is followed in the development of any new security assistance program initiative.

THE PHILIPPINES: THE FUTURE

Senator Inouye: I am very concerned about the future of the Philippines. Press reports indicate that the strength of the communist New People's Army (NPA) is increasing. Some have suggested that arson has become a means of achieving liquidity for capital flight. U.S. banking interests have slowed or altogether terminated their participation in the Philippine economy.

What are your thoughts? Is the Philippine Government in peril?

Is there likely to be a succession crisis? If so, when will it come? How is it likely to occur? What is our government doing to forestall a crisis?

When are the next presidential elections?

Secretary Schneider: It is true that the Philippines is facing enormous economic difficulties at a time of considerable political uncertainty. Real GNP growth was minus 5.5 pecent in 1984, and inflation was more than 50 percent. Positive real growth is unlikely to resume until 1986, and then only at a modest rate. As the Philippines seeks to cope with economic crisis, it also faces a growing communist insurgency. The communist-led New People's Army now numbers some 10-12,000 armed guerrillas and operates in rural areas throughout the country.

However, we do not consider the Philippine Government to be in imminent peril. It is true that progress toward resolution of problems has been uneven; there have been steps forward and steps backward, but progress has been registered. On the political side there was the parliamentary election in May, 1984, the first since the termination of martial law in 1981. It was preceeded by the promulgation of a balanced election law acceptable to the opposition, and the elections themselves were considered overall by Filipinos as more open and fair than other recent polls. Additionally, there has been the establishment of a constitutional mechanism for succession that requires a prompt election in the event of presidential death or incapacity; and the emergence of a degree of press freedom seen in few developing countries. Another significant development was the conclusion of an independent investigation by the Agrava Board which categorically refuted the government's contention that former opposition leader Benigno Aquino's murder was the work of a one communist gunman. A civilian court trial is now going on. We will not prejudge its outcome; however, all observers have to be concerned about the recent failure of witnesses to appear. It is important that the Philippine Government take all measures possible to ensure the appearance of witnesses and their ability to testify freely.

On the economic front, the first essential steps toward resolving the financial crisis have been taken. Initial steps have also been taken toward structural reforms needed to get the economy back on the path of sustained growth. We have also seen encouraging signs that the Philippine government leadership and military establishment recognize the seriousness of the insurgency and are adopting a more effective, comprehensive approach to the challenge.

At the present time, political groups are beginning to organize for two key electoral contests: the 1986 local elections and the 1987 presidential elections. As we did in the case of the 1984 parliamentary election, we support a full, free and open electoral process in which opposition forces have an equal chance to participate. We believe that agreement on an electoral code acceptable to all moderate political groups, together with the active participation of the National Citizens' Movement for Free Elections (NAMFREL), which organized the very effective citizens poll watchers groups throughout the country during the 1984 campaigns, can contribute to the revitalization of the democratic institutions essential for the reemergence of a fully functioning democracy in the Philippines.

THE PHILIPPINES: THE AQUINO ASSASSINATION

Senator Inouye: I'm sure you know there is a continuing interest in the Aquino assassination and the response of the Government of the Philippines.

What information can you give the committee on the current state of affairs? Is the government pursuing an appropriate course?

Secretary Schneider: The Department has been following the progress of the trial very closely, as we did the deliberations of the Agrava Board, and will continue to do so. The American Embassy has sent observers to the trial sessions, and has made every attempt to keep fully abreast of all developments in the case. We are not privy, of course, to the inner workings of the court, which are confidential. Much of the available information on the trial is speculation, and there have been suggestions that some witnesses are reluctant to appear or are seeking to delay their appearance before the court. We are not in a position to confirm or deny such stories, but our position on the need for the full observance of due process, with respect to the witnesses as well as the defendents, is clear. As Assistant Secretary of State Paul Wolfowitz stated before the HFAC Asia and Pacific Subcommittee on March 12:

"The civilian court trial is now going on. We will not prejudge its outcome. However, all observers have to be concerned about the recent failure of witnesses to appear. It is important that the Philippine Government take all measures possible to ensure the appearance of witnesses and their ability to testify freely."

THE PHILIPPINES: U.S. ASSISTANCE

Senator Inouye : Last year Secretary Shultz warned the committee, "There is always a temptation to cut corners here and there in the aid budget...strengthening our friends is generally an effective way to avoid major problems down the road..."

Are you confident that the proposed assistance will strengthen the Philippine Government? Is it sufficient, or are we cutting corners?

Secretary Schneider: We consider the proposals the Administration put before you for FY 86 to represent the appropriate level and mix of US assistance needed by the Filipinos at this time. Our military and economic assistance should help the Philippine Government respond to the current economic crisis and address the growing insurgency problem. We do not believe we are cutting corners, but it is important that the levels proposed by supported by Congress. Cuts in military assistance of the kind advocated by some members of the Senate and House would significantly limit our ability to help the Filipinos deal with the insurgency problem.

THE PHILIPPINES: NEW PEOPLE'S ARMY

Senator Inouye: Where is the principal area of operation of the NPA? What is the character of the terrain of this area?

If it is our intention to increase the mobility of the Philippines ground forces, why are no helicopters proposed for financing under the FMS program? Are helicopters inappropriate to combatting the insurgency in the Philippines? If so, why?

Has the NPA been active in urban areas? Are they responsible for the recent rash of hotel fires?

Secretary Schneider: The NPA operates in all provinces of the Philippines. However, its major areas of operations are in eastern and northeastern Mindanao, including Davao, the second largest city in the country; western Negros Island and parts of Samar and Leyte in the Visayas; and in the Bicol and north central areas of the major island of Luzon. With the exception of Davao City, the areas of major NPA activity tend to be poor, rural areas in mountainous regions of the country. The topography complicates the movement of organized government units because of the lack of communication and transportation infrastructure in those areas.

The limited amount of funding available to the Armed Forces of the Philippines has necessitated a focus on the most urgent items. Helicopters are certainly useful in countering the insurgency. Indeed, the Filipinos bought 19 Sikorsky S-76 helicopters slightly more than a year ago. The focus for FY 86 will be to support and maintain existing equipment, while purchasing other vitally needed items such as trucks.

There has been some speculation that the NPA may have been responsible for a rash of hotel fires in the Philippines earlier this year. However, no official investigation report on the fires has been issued to date, and there is no convincing circumstantial evidence to suggest NPA culpability.

IMET PRICING AND ARGENTINA

Senator Inouye: Secretary Schneider, last year, the Congress, following the action of this committee, changed the authorization for the International Military Education Program to allow for single unit pricing.

How has this change affected the operation of the IMET program?

Secretary Schneider: The provisions of the Fiscal Year 1985 CR amending Sec 21(a)(3) of the Arms Export and Control Act applied to only that training sold under Foreign Military Sales Authorizations. It therefore, had no effect on the funding or operation of the IMET program.

Senator Inouye: For fiscal year 1986, you are requesting an increase of $9,429,000 in funding for the IMET program. Since you are now operating under the single pricing concept, why is an increase in funding proposed?

Secretary Schneider: I refer to my previous answer that FMS single pricing for training is separate and distinct from IMET pricing. We requested the increase of $9,429,000 in funding to the IMET program to provide for identified training needs of our allies and friendly countries that we believe are essential, and best provided within the IMET program to further our purposes as described in chapter 5 of the Foreign Assistance Act.

Senator Inouye: How many students will you be able to fund with $65,650,000 you are requesting for the program?

Secretary Schneider: As noted in the Congressional Presentation Document, we expect these funds will provide training for 8,542 students.

Senator Inouye: How does this compare to the number which participated in the program in fiscal year 1984 when the single price concept was not in effect and $51,165,000 was appropriated?

Secretary Schneider: The single price concept only applies to training purchased under the Foreign Military Sales program and therefore does not enter into any comparison of the number of IMET students. We expect, however, that the new single pricing for FMS will overall result in more students participating in U.S. military training. This is desirable in a foreign policy and national security context where in our own interest we encourage our friends and allies to increase readiness by purchasing more training.

Senator Inouye: I am pleased to see a request for the resumption of an IMET program for Argentina. I think we are all pleased with the progress of democracy in Argentina and I believe that a resumption of this program could signal the Argentine military of our interest in their future as well.

Will any special waivers be required in order for this proposal to go forward?

Secretary Schneider: No. This training could proceed on the basis of the Administration's "training exemption" legislative initiative, which would allow IMET and other training notwithstanding any prohibition of law, aside from human rights requirements and the prohibition on police training.

Senator Inouye: Does the administration intend to propose legislation which would authorize this program?

Secretary Schneider: Yes, we already have in the form of section 510 of S.660, the Administration's FY 1986 Foreign Assistance Bill.

Senator Inouye: If it came to a requirement to waive section 669 and section 670 of the Foreign Assistance Act, what would be your arguments in support of a waiver in order to resume the IMET program?

Secretary Schneider: As you imply, there are good reasons to begin to consider IMET for Argentina. Those reasons include the opportunity for expanded contact between Argentine and American government and military officials, and the chance of increased Argentine understanding of U.S. values, institutions and our view of the role of the military in a democratic society. Those are among the reasons we have put forward in our "training exemption" proprosal, which if enacted, would obviate the need to consider the applicability of Sec. 669 or 670 or any waiver under those provisions of law, in order to implement an IMET program.

US PEACEKEEPING CONTRIBUTIONS

Senator Inouye: Secretary Schneider, as I understand it, the whole of the fiscal year 1986 request for funding of peacekeeping operations is for two activities: the U.S. contribution to the United Nations force in Cyprus (UNFICP) and the Multilateral Force and Observers (MFO) in the Sinai.

Are the MFO and UNFICYP the only multilateral peacekeeping efforts in which the U.S. participates, either directly or as a financial contributor?

If not, what are the others?

Why is U.S. participation not funded under the peacekeeping account?

Secretary Schneider: In addition to the MFO and UNFICYP, the US is a financial contributor to two other multilateral peacekeeping forces: the United Nations Interim Force in Lebanon (UNIFIL) and the United Nations Disengagement Observer Force (UNDOF) in the Golan Heights. We also contribute to two UN peacekeeping organizations, the UN Truce Supervision Organization and the UN Military Observer Group in India and Pakistan. We fund these activities through the State Department budget rather than the peacekeeping account because they are part of our general UN assessment, unlike the voluntary agreements which cover our participation in the MFO and UNFICYP.

CARIBBEAN PEACEKEEPING FORCE

Senator Inouye: Am I to understand from the Table on page 37 of the Security Assistance CPD that the Caribbean Peacekeeping Force has been disbanded?

Secretary Schneider: The Caribbean Peace Force has not yet been disbanded. It will remain on Grenada until approximately mid September when we expect the Royal Grenadian Police Force to be fully trained and capable of assuming full responsibility for the island's security. The table on page 37 shows no request for FY 1986 because the CPF will complete its mission using FY 1985 funds.

Senator Inouye: What was the total cost of this operation? What was the U.S. share of this cost?

Secretary Schneider: We do not have figures for the costs to the seven islands which are participating in the Caribbean Peace Force. The United States has to date contributed $20 million in the form of grant Peacekeeping Organization funding.

Senator Inouye: Are there still U.S. forces stationed on Grenada? If so, how are they funded?

Secretary Schneider: There are still some US military police and support personnel stationed on Grenada. Barring unforeseen difficulties, they will all be withdrawn over a two month period beginning April 12, 1985 under a phased withdrawal plan which was agreed upon by the United States, Grenada and the nations of the Caribbean Peace Force. They are being funded from the O&M budget of the Department of Defense.

FINANCIAL ASPECTS OF UNFICYP

Senator Inouye: With regard to UNFICYP, to whom is the $117.7 million owed?

Secretary Schneider: The UNFICYP deficit, which as of February 12, 1985 had climbed to $122 million, is owed to the troop-contributing countries. The troop-contributing countries are Austria, Canada, Denmark, Sweden, and the United Kingdom. Finland and Ireland provide a few officers and military police at UNFICYP headquarters. Civilian police contingents are provided by Australia and Sweden. Under the terms of the UNFICYP Agreement, the troop-contributing governments divert from national duty troops and other resources at an ongoing cost to them estimated at $36.2 million for each six-month period. This figure includes (a) the troops' regular pay and allowances and normal materiel expenses for which, under existing arrangements, the United Nations is not required by the troop contributors to reimburse them; these therefore constitute costs of maintaining the Force which are being financed directly by the troop-contributing governments; and (b) certain extra and extraordinary costs that they incur in respect of UNFICYP for which, under existing arrangements, the troop-contributors would be entitled to claim reimbursement from the United Nations, but which they have agreed to finance at their own expense as a further contribution to the United Nations operation in Cyprus. The deficit is the result of additional expenses, currently estimated at $13.9 million per six-month period, which represent direct costs to the United Nations which the Organization is required to meet. This includes the extra and extraordinary costs of governments providing contingents for which they seek to be reimbursed. The deficit has thus placed a disproportionate burden on the troop contributing countries whose claims on the United Nations have only been met through June 1978.

Senator Inouye: What is the cause of this deficit? Did anticipated contributions not materialize or were expenditures in excess of what was budgeted?

Secretary Schneider: UNFICYP was created to respond to a clear and present threat of violence on the island of Cyprus. As such, its operation was neither forecast nor budgeted. Great-power disagreements over the financing of peacekeeping forces prevented financing UNFICYP through UN assessments and it became necessary to rely on voluntary contributions. UNFICYP has made, and continues to make, an indispensable contribution to international peace and security and to maintaining calm in Cyprus, a condition crucial to the Secretary General's ongoing efforts to promote a just and lasting settlement of the Cyprus problem. UNFICYP, therefore, provides direct and immediate support to US foreign policy interests.

Senator Inouye: Is it the responsibility of the U.S. to reduce UNFICYP's deficit?

Secretary Schneider: No, there is no legal responsibility for the U.S. to reduce the deficit. There are compelling reasons, however, for the U.S. to continue supporting the UNFICYP peacekeeping effort.

Senator Inouye: Which nations are considered "non-contributing members"?

Secretary Schneider: Those nations which belong to the United Nations but have not contributed to UNFICYP are "non-contributors". Since 1964, 71 countries, not all UN members (Republic of Korea), have made payments or pledges of voluntary contributions to support the operation in Cyprus. (A copy of pledges and payments to UNFICYP through February 12, 1985, is attached).

PLEDGES AND PAYMENTS TO THE UNFICYP SPECIAL ACCOUNT FOR THE PERIOD 27 MARCH 1964 TO 15 DECEMBER 1984 AS AT 12 FEBRUARY 1985

(in United States dollar equivalent)

Country	45th period (16.12.83 to 15.6.84)	46th period (16.6.84 to 15.12.84	Total pledges	Payment received	
AUSTRALIA	50,008	50,008	2,819,889	2,819,889	a/
AUSTRIA	125,000	125,000	4,190,000	4,190,000	a/b/
BAHAMAS	1,000	1,000	9,000	9,000	
BARBADOS	-	-	1,500	1,500	
BELGIUM	91,154	91,154	4,375,454	4,375,454	
BOTSWANA	-	-	500	500	
CANADA	-	-	-	-	a/
CYPRUS	-	-	4,031,359	4,031,359	
DEMOCRATIC KAMPUCHEA	-	-	600	600	c/
DENMARK	114,227	-	4,894,188	4,894,188	a/b/
FINLAND	-	-	1,050,000	1,050,000	b/
GERMANY, FEDERAL REPUBLIC OF	431,570	431,570	23,335,865	23,335,865	
GHANA	-	-	76,897	76,897	
GREECE	400,000	400,000	20,520,312	20,520,312	
GUYANA	-	-	11,812	11,812	
ICELAND	5,000	5,000	96,657	96,657	
INDIA	5,000	5,000	90,000	90,000	
IRAN, ISLAMIC REPUBLIC OF	-	-	144,500	94,500	
IRAQ	-	-	50,000	50,000	
IRELAND	-	-	50,000	50,000	
ISRAEL	-	-	26,500	26,500	
ITALY	-	-	7,781,645	7,747,128	
IVORY COAST	-	-	60,000	60,000	
JAMAICA	-	-	33,033	33,033	
JAPAN	-	-	4,440,000	4,440,000	
KUWAIT	-	-	140,000	140,000	
LAO PEOPLE'S DEMOCRATIC REPUBLIC	-	-	1,500	1,500	d/
LEBANON	-	1,000	4,194	4,194	h/
LIBERIA	-	-	13,321	11,821	
LIBYAN ARAB JAMAHIRIYA	-	-	50,000	50,000	
LUXEMBOURG	-	-	124,837	124,837	
MALAWI	-	-	6,363	6,363	
MALAYSIA	-	-	7,500	7,500	
MALTA	-	-	1,820	1,820	
MAURITANIA	-	-	4,370	4,370	
MOROCCO	-	-	20,000	20,000	
NEPAL	-	800	1,600	1,600	
NETHERLANDS	-	-	2,518,425	2,518,425	
NEW ZEALAND	-	-	71,137	71,137	
NIGER	-	-	2,041	2,041	
NIGERIA	-	4,492	15,292	15,292	
NORWAY	305,000	305,000	8,918,265	8,918,265	
OMAN	-	-	8,000	8,000	
PAKISTAN	3,000	-	53,791	53,791	
PANAMA	250	250	1,000	1,000	

COUNTRY	45th period ([illegible]83 to [illegible])	46th period (16.6.84 to [illegible].12.84)	Total pledges	Payments received	
PHILIPPINES		-	12,430	[illegible]	
PORTUGAL	-	-	12.000	12,000	
QATAR	-	-	21,000	21,000	
REPUBLIC OF KOREA	-	-	16,000	16,000	
SENEGA	-	-	4,000	-	
SIERRA LEONE	-	-	46,425	46,425	
SINGAPORE	-	-	9,000	9,000	
SOMALIA	-	-	1,000	1,000	
SRI LANKA	2,000	-	2,000	2,000	
SWEDEN	-	-	7,120,000	7,120,000	a/b/
SWITZERLAND	144,804	144,804	6,512,293	6,512,293	
THAILAND	-	1,000	4,500	4,500	
TOGO	-	-	2,806	1,020	
TRINIDAD & TOBAGO	-	-	2,400	2,400	
TURKEY	-	-	1,839,253	1,839,253	
UNITED ARAB EMIRATES	-	-	30,000	30,000	
UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND	1,212,687	1,092,175	69,701,727e/	69,701,727	a/b/
UNITED REPUBLIC OF CAMEROON	-	-	21,699	21,699	h/
UNITED REPUBLIC OF TANZANIA	-	-	7,000	7,000	
UNITED STATES OF AMERICA	4,500,000	-	159,721,177f/	[illegible]	
URUGUAY	-		5,000	5,000	
VENEZUELA	-		28,000	28,000	
VIETNAM	-	-	4,000	4,000	g/
YUGOSLAVIA	-	-	40,000	40,000	
ZAIRE	-	-	30,000	30,000	
ZAMBIA	3,171	3,172	44,343	44,343	
ZIMBABWE	1,154	1,154	6,912	6,657	h/
TOTAL	7,395,025	2,662,579	335,298,132	335,206,074	

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a/ Indicative figures over a six-month period of the costs absorbed by Governments providing contingents are as follows: Australia $500,000; Austria $1.9 million; Canada $10.7 million; Denmark $650,000; Sweden $3.5 million and United Kingdom $19 million.

b/ Payment has been made or will be made by means of an offset against the Government's claims for reimbursement of its costs.

c/ Contributions received in 1964.

d/ Contributions received in 1967.

e/ Maximum amount pledged.

f/ Maximum amount pledged. The ultimate contribution will be dependent on the contributions of other Governments.

g/ Contributions received from 1964 through 1966.

h/ The following additional pledges or payments have been received for the period 16 December 1984 to 15 December 1985: Lebanon $1000, United Republic of Cameroon $6,383 and Zimbabwe $16,552.

Senator Inouye: Can you adduce some reasons for their failure to contribute?

Under Secretary Schneider: It is difficult to speculate on the motives of other governments. Many countries which have not contributed are among the poorest countries in the world. It is perhaps unreasonable to expect anything beyond a symbolic contribution in any event. Other members, with regard to other operations, have even refused to pay assessed peacekeeping contributions as a matter of principle.

Senator Inouye: Should the U.S. expect to make a $9 million contribution indefinitely?

Under Secretary Schneider: As is the case in all peacekeeping operations, it is our sincere hope that UNFICYP will, in the near future, no longer be necessary to maintain calm and stability on the island. Until then, however, it is in the interest of the US government to encourage current UNFICYP supporters to continue that support. To do so, it will be necessary to maintain our contribution.

MULTILATERAL FORCE AND OBSERVERS (MFO)

Senator Inouye: I am impressed by the fact that the MFO's management strategy has consistently resulted in expenditures lower than expected.

In what respect is this strategy different from that of many organizations, as suggested in the Security Assistance CPD?

Secretary Schneider: Many organizations rely on their budget as the primary mechanism for controlling expenditures. When the MFO was established, there was no prior experience on which to base a budget. Start-up expenses, including construction costs, could only be roughly estimated, and the three countries financing the MFO did not know how much would have to be paid to troop contributing countries. Rather than use what was recognized as a speculative budget to control expenditures, the MFO has relied on tight management procedures. There has been no year-end spending to bring expenditures in line with the budget. Instead, the surplus from one year has been applied to the budget of the following year. This has also provided the organization, which had no established credit, with funds for the very beginning of its fiscal year, before the arrival of contributions.

Senator Inouye: What is the legislative authority for the "carry-over" of funds from one year to the next?

Secretary Schneider: We obligate the full amount requested as our contribution to the MFO in a given fiscal year, and make payment by creating a letter of credit in favor of the MFO. The MFO applies any money from our contribution not spent in the year in which we make the contribution against its budget for the following year. The MFO only draws funds as needed from the U.S. Treasury against its letter of credit. It follows the same procedure for the contributions by Israel and Egypt.

Senator Inouye: The CPD indicates that the fiscal year 1985 U.S. contribution, originally budgeted for $28 million, was actually $23 million. Now the request for fiscal year 1986 is for $28 million, which together with a $5 million carry-over, would result in a $33 million contribution.

Do you really expect the U.S. contribution to increase by $10 million in one year?

Secretary Schneider: The MFO budget for FY 1985 is $105 million, our share of which is $35 million, but the MFO surplus from FY 1984 reduced our actual contribution to only $23 million. The MFO budget for FY 1986 is $99 million, our share of which is $33 million. Thus, the MFO budget, and our share thereof, is in fact declining. However, the MFO surpluses have resulted in actual contributions lower than our share. We have asked the MFO whether, given past surpluses, it is realistic to expect that its actual expenditures will be $99 million in FY 1986. The MFO response was that it was projecting annual price increases in the range of six per cent, equipment replacement costs, and a possible change in the countries participating in the MFO. With regard to the latter contingency, Australia has indicated that it plans to withdraw its eight helicopters, crews and maintenance personnel not later that April 1986. Negotiations are underway concerning a possible replacement, but it is too early to say how much the new contingent will cost.

Senator Inouye: Is it expected that the U.S. will make annual contributions to the MFO indefinitely?

Secretary Schneider: Although we do not see the MFO as a permanent organization, it is impossible at this time to predict when it might no longer be needed. It was established only after it became apparent that the United Nations would not be willing to carry out the security role outlined in the Egypt-Israel Peace Treaty. The MFO protocol makes provision for alternative arrangements, and the MFO organization was designed to facilitate the United Nations assuming its role should that become feasible or desirable to both parties. Also, the Peace Treaty provides for review and amendment of the security arrangements at the request of either Egypt or Israel. To date, the time has not been ripe for such discussions.

Senator Inouye: Why is the MFO Headquartered in Rome?

Secretary Schneider: Rome was selected as the site for the MFO headquarters because it is centrally located in close proximity to the Force headquarters in the Sinai, as well as Cairo and Tel Aviv. Also, Italy is a participating country in the MFO. For political reasons it was felt that the MFO headquarters should not be located in Egypt or Israel.

Senator Inouye: What was the most recent annual (either fiscal or calendar year) cost of operations for the MFO's headquarters?

Secretary Schneider: The MFO does not provide breakdown of its actual expenses by function. The budgeted amount for Fiscal Year 1985 for the Director General's headquarters is $6.45 million. That figure covers salaries, communications, contractural services (including security), insurance (for the entire MFO), office expenses, residence expenses, and travel. The staff is 58 -- 32 international, professional and administrative personnel, and 26 local clerical employees.

FOREIGN ASSISTANCE TO BASE RIGHTS COUNTRIES

Senator Inouye: What are the individual and total amounts the U.S. will provide in fiscal year 1986 assistance to the five "base rights" countries of Spain, Portugal, Greece, Turkey, and the Philippines?

Secretary Schneider: The Administration has proposed the following FY 1986 assistance to these countries (in millions of dollars):

	SPAIN	PORTUGAL	GREECE	TURKEY	PHILIPPINES
FMS	400	65	500	555	50
MAP	0	70	0	230	50
IMET	3	3	1.75	4	2.25
ESF	12	80	0	150	95
NARCOTICS CONTROL	0	0	0	.92	0
DA	0	0	0	0	36
Peace Corps	0	0	0	0	4.315
PL 480	0	0	0	0	42.041
TOTAL	415	218	501.75	939.92	279.606

GREECE: BASE RIGHTS

Senator Inouye: Are you at all concerned that Greece will not renew its base rights agreement with the U.S.? Have U.S. interests or rights under the current agreement been compromised in any way by the present government of Greece?

Secretary Schneider: The language in the 1983 DECA is clear: it will run until terminated by written notice by either side, which can take place at the end of five years or any time thereafter. This is comparable to agreements we have concluded with other NATO allies concerning provisions for consultations, renegotiation and termination.

Our key military interests in Greece are basically intact and working despite outbursts of rhetoric and even occasional DECA violations by the Greek side (most notably during last summer's strike at U.S. bases). Our use of the facilities in Greece continues largely without interference under the DECA. The vast majority of naval ship visits and aircraft overflights are honored. Waiver of jurisdiction cases submitted to the DECA Joint Commission have a greater than seventy percent approval rate.

Implementation of the DECA is progressing in several fora. Negotiations are underway for a permanent labor agreement governing employment of Greek nationals at U.S. military facilities. Both sides have submitted draft texts intended to modernize, clarify, and codify status of forces arrangements. We are awaiting a Greek response to our draft framework on defense industrial cooperation.

GREECE: CONTINGENCY PLANS FOR RELOCATION OF FACILITIES

Senator Inouye: Is the U.S. making any contingency arrangements for the relocation of any U.S. equipment, facilities, or base support activities from Greece to another location?

Secretary Schneider: The Greek Government has made a number of statements to the effect that our current base agreement is simply a prelude to having our bases leave Greece in 1988. We believe the base agreement serves the interests of both countries and that is why it was completed in 1983. We are working under the assumption that this situation will continue. We have expressed our concern to the Greek Government about their statements, and it is only prudent for us to conduct studies and examine alternatives in the event we have to move the bases elsewhere.

MILITARY INSTALLATIONS ON CYPRUS

Senator Inouye: Is the U.S. providing, directly or indirectly, any support for the development of military installations on Cyprus?

Secretary Schneider: The U.S. provides no direct or indirect support for development of military installations on Cyprus. Specifically, we are not building an airfield or any other military facility in northern Cyprus nor have we developed plans for military use of any facilities in northern Cyprus.

TURKISH AIRFIELD CONSTRUCTION ON CYPRUS

Senator Inouye: Is Turkey constructing or improving any airfields on Cyprus?

Secretary Schneider: Inquiries concerning Turkish military activities on Cyprus could more usefully be addressed to the Government of Turkey.

TURKISH SECURITY ASSISTANCE

Senator Inouye: Secretary Schneider, you have said that "on programmatic grounds," a more significant increase could be justified in the assistance program for Turkey. Why have you not requested the amount which could be justified?

Secretary Schneider: The U.S. Military Mission to Turkey has concluded that the optimum amount that the Turkish modernization program needs and could absorb is $1.2 billion per year. Therefore, we could justify expenditure of that amount on the basis of Turkish needs, but did not request it because of competing demands for scarce resources and budgetary stringencies.

Senator Inouye: Are other NATO members contributing to Turkey's well-being?

Secretary Schneider: Between 1979 and 1983 OECD countries other than the United States provided Turkey with almost $2 billion in emergency economic assistance. Turkey continues to receive project assistance and export credits from most of those countries. We and NATO are encouraging other NATO allies to provide more military assistance to Turkey as well. In 1984 Turkey received $43 million in grant military aid from the Federal Republic of Germany. Canada also agreed to transfer 20 used F-104 aircraft to the Turks last year.

TURKISH ASSISTANCE TO CYPRUS SETTLEMENT

Senator Inouye: Has Turkey been helpful to the US efforts to resolve the Cyprus dispute?

Secretary Schneider: We believe the influence brought to bear by the Government of Turkey on the Turkish Cypriot community leadership during the Secretary General's proximity talks last fall was instrumental in convincing Mr. Denktash to accept "in toto" the Secretary General's draft agreement at the subsequent summit meeting in January.

U.S. SECURITY ASSISTANCE TO THAILAND

Senator Inouye: In its efforts to crush Khmer nationalism and resistance to its armed occupation of Kampuchea, Vietnam has attacked Thailand. This has occurred as recently as two weeks ago and may, indeed, be continuing at this moment.

Is the United States adequately responding to the security assistance needs of Thailand?

Secretary Schneider: In recent months, the Vietnamese dry season offensive against the Cambodian resistance groups and their attacks against the civilian camps along the border have been particularly brutal. These operations have included numerous Vietnamese incursions into Thai territory. The Thai armed forces have expended much materiel and suffered casualties in defending their territory. This offensive is, of course, only the most recent manifestation of Vietnam's illegal occupation of Cambodia and the threat it poses to Thailand.

We have worked closely with the Royal Thai Government (RTG) since Vietnam's invasion of Cambodia in 1978 to increase the deterrent value of their military and to enable Thailand to defend itself. There has been a threefold increase in our security assistance to Thailand in the last five years. We have also enhanced our program of joint exercises and training as well as increased cooperation in the logistics field. In the face of specific challenges during the annual Vietnamese offensives in Cambodia, we have accelerated the delivery of needed weapons and supplies. We are doing the same this year. These gestures have been both real and symbolic, representing our firm commitment to Thai security.

We have been in close consultation with the RTG and are continuing to explore ways in which we can be helpful. Within the limits of competing needs for our limited assistance resources, we feel that, to the present, our support has been adequate and welcomed by the Thai. We naturally will keep this question under continuous review.

Senator Inouye: Using open-source information, can you demonstrate the need for U.S. assistance to Thailand by comparing its military assets with those of Vietnam in neighboring Kampuchea?

Secretary Schneider: The total strength of the Thai armed forces is about 235,000 personnel. Of this number, 160,000 are in the Royal Thai Army (RTA) divided into 1 cavalry division, 1 armored division, 7 infantry divisions, 2 special forces divisions and an artillery division. There are also 11 engineering and 8 independent battalions. The Royal Thai Navy has one Marine brigade. Most Thai combat experience has been in limited counter-insurgency operations, not in more conventional warfare, and the Thai have no experience in fighting a major war. The Thai have about 1000 armored fighting vehicles in their inventory, less than a third of which are tanks. The Royal Thai Air Force has in its inventory about 50 jet fighters.

The Vietnamese occupation forced in Cambodia numbers 160,000 to 180,000. Almost all are ground forces presently concentrated in the western and northwestern parts of the country nearer to Thailand. It is estimated that these forces include some 150 tanks as well as a full complement of other armored vehicles and artillery. The Vietnamese troops are battle hardened and led by officers with long experience. The Vietnamese have not stationed air assets in Cambodia. It should be noted that the puppet Heng Samrin regime also fields an army of about 30,000. The Vietnamese maintain an estimated 40,000 troops in Thailand's neighbor to the northeast -- Laos.

While this general comparison indicates some rough similarity in forces, any comparison of Thai and Vietnamese armed strength must consider total Vietnamese forces from which reinforcements and reserves could be drawn. Thailand has no equivalent reserves and its equipment inventory is very limited. The Vietnamese army numbers 1.2 million and has at least 5200 armored vehicles. Its air force has 290 jet fighters and ground attack aircraft, including 180 MIG-21's. Vietnamese forces on this massive scale are supported to a significant degree by a vast stipend from the Soviet Union.

Also significant is the expanding Soviet presence at Cam Ranh Bay where the Soviets maintain a force of around 40 airplanes including reconnaissance, strike and fighter aircraft. Soviet naval presence at the base has also grown considerably.

These comparisons clearly show the very great magnitude of the threat faced by Thailand.

Senator Inouye: Has the U.S. encountered any obstacles to the prompt delivery of necessary military equipment, such as helicopters or fighter aircraft?

Secretary Schneider: The lead-time for certain military items ordered by Thailand can often be very long. This long delay between ordering and delivery sometimes has been frustrating for the Thai military on items to which it attaches a high priority. Nevertheless, in the past we have often been able toaccelerate the delivery of these items for which a real and urgent need can be demonstrated.

Senator Inouye: Have these obstacles been overcome?

Secretary Schneider: As I noted above, in many cases we have been able to accelerate deliveries. We will continue to make deliveries of necessary military items to Thailand as quickly as possible within the constraints of production schedules and competing demands from our own services and similar urgent needs in others parts of the world. We are also working with the RTG to improve its long term acquisition planning so we will be in a better position to respond to requests.

Senator Inouye: With foreign debt looming as an increasing threat to Thailand's economic stability, why is the Administration's proposed program so centered on FMS credits?

Secretary Schneider: In the context of the very real security threat Thailand faces, its primary concern in recent years has been for security assistance funds. Most of the security assistance funds available to the Administration have been for FMS loans. As a consequence of the very worrisome debt problems which Thailand has encountered recently, we have proposed that these FMS loans be made softer. The RTG has made several difficult and courageous decisions which should help bring these economic problems under control. Nonetheless, it does face several difficult years and we want to be as helpful as possible. For FY86 we are requesting that $40 million in

FMS loans be made at concessional rates and the remaining $57.5 million be provided on 10/20 terms. We feel that this is imperative to ease the financial burden forced on the RTG by the security problems it faces.

Senator Inouye: Does the situation not warrant the provision of greater amounts of MAP grant military assistance?

Secretary Schneider: In fact, in recent years we have been able to provide a small portion of our security assistance as MAP funds. However, with budgetary constraints and competing demands, we have not been able to increase the MAP component of our assistance package though Thailand's economic and security problems would justify such a move.

HONDURAS: ECONOMIC ASSISTANCE

Senator Inouye: Secretary Schneider, what is the total amount of Fiscal Year 1985 and Fiscal Year 1984 Supplemental assistance which is being withheld from Honduras? Why is it being withheld? Is the U.S. seeking Honduran compliance with economic policy reforms? What are the desired reforms?

Secretary Schneider: Funds are not being withheld from either FY-85 or FY-84 Supplemental assistance to Honduras. Military and development assistance has been or is in the normal process of being disbursed. As for Economic Support Funds, an agreement was signed on March 25 in which the GOH agreed to a series of economic structural adjustment measures leading to obligation and partial disbursement of the $72.5 million of FY-84 Supplemental ESF assistance. Discussions with the GOH regarding details of an economic program that the U.S. would support with the $75.0 million FY-85 ESF appropriation will begin soon.

Disbursement of ESF funding is conditioned on GOH-USG agreement on appropriate structural economic adjustments designed to help Honduras revitalize its economy. Recent disbursement of $35 million of FY-84 Supplemental ESF assistance was based on the GOH's commitment to carry out several specific measures, including tariff reform, implementation of a special payment mechanism to promote Central American trade, legislation to facilitate the use of land titles as collateral for agricultural credit, reduction of public sector management of Honduras' timber marketing activities, divestiture of public sector enterprises, and restructuring of public debt instruments. Disbursement of the remaining FY-84 Supplemental ESF appropriation will be based on implementation of the structural adjustments to which the GOH has agreed. We have an understanding with the GOH that obligation of FY-85 ESF will result from agreement on a comprehensive program to correct fundamental constraints to Honduran economic growth, including the balance of payments and fiscal deficits.

Senator Inouye: Does Honduras have an active IMF program? Does it have a "shadow program?"

Secretary Schneider: Honduras does not have a current IMF program nor does it have a "shadow program." We anticipate that economic reforms now being initiated or under consideration may lead to a future agreement with the IMF.

Senator Inouye: Are the U.S. funds which are being withheld ESF funds?

Secretary Schneider: As I have indicated, U.S. assistance is not being withheld from Honduras.

Senator Inouye: If these funds, which were intended as "fast-disbursing non-project assistance," are being withheld, why are you proposing an additional $80 million in such so-called "fast-disbursing" assistance?

Secretary Schneider: ESF funds are considered "fast-disbursing" in comparison with development assistance. It takes a long time to build a road or carry out a rural health care project. In comparison, ESF funds are promptly disbursed and may provide a rapid, beneficial impact on the recipient country's economy once the necessary economic adjustment measures are agreed on and implemented. For example, an ESF agreement was signed with Honduras on March 25; we have already disbursed an initial $35 million and expect to disburse another $20 million shortly.

Honduras has substantial need for U.S. economic assistance during the current critical period of economic adjustment in the face of extreme budgetary pressure caused by the need to defend against the Nicaraguan threat to Honduran stability. We believe that the $80 million requested for FY-86 will be disbursed within a reasonable period of time based on further Honduran progress toward a comprehensive economic stabilization program.

HONDURAS: ECONOMIC AND SECURITY WORKING GROUPS

Senator Inouye: Is the U.S.-Honduran Economic Working Group still functioning? What are its responsibilities and objectives?

Secretary Schneider: The Joint Economic Working Group (JEWG) continues to meet periodically. It has primary responsibility for developing terms and conditions for disbursement of certain U.S. economic assistance, such as ESF. The JEWG was instrumental in laying the groundwork for the USG-GOH agreement signed on March 25 regarding ESF assistance. In addition to the JEWG, a U.S.-Honduran Joint Commission was established in November 1984 which includes both economic and security subgroups. The Commission's Economic Subgroup, with the aid of the JEWG, completed the negotiation of the March 25 ESF agreement. The Economic Subgroup is responsible for bilateral discussions on economic issues of mutual interest, among which are the conditions, forms and levels of U.S.-Honduran economic cooperation and assistance.

Senator Inouye: Is there a collateral U.S.-Honduran military working group?

Secretary Schneider: Yes. There is a Security Subgroup of the Joint Commission.

Senator Inouye: What are its responsibilities and objectives?

Secretary Schneider: The Security Subgroup is responsible for security-related issues affecting the U.S.-Honduran relationship. Key issues under consideration include clarification of the existing U.S. commitment to Honduran sovereignty and a possible updating of U.S.-Honduran agreements dealing with immunities and claims.

Senator Inouye: Who are its members?

Secretary Schneider: The U.S. delegation to the Security Subgroup is headed by Lt. General John Chain, Director of the Department's Bureau of Politico-Military Affairs. It includes State Department representatives from my office (Office of the Under Secretary for Security Assistance, Science and Technology), the Bureau of Inter-American Affairs, and the Office of the Legal Advisor, and representatives of the Department of Defense. The Honduran side is headed by Armed Forces Chief of Staff Colonel Efrain Gonzalez and includes representatives of the Honduran Ministry of Foreign Affairs and the Armed Forces.

HONDURAS: ARMED FORCES

Senator Inouye: Are any of the military assistance funds provided for Honduras in fiscal year 1985 or the Fiscal Year 1984 Supplemental being withheld?

Secretary Schneider: We are not withholding any military assistance funds appropriated for Honduras. As you know funds from the FY-84 Supplemental which were appropriated for the Regional Military Training Center in Honduras have been reprogrammed, with part of the funds going to Honduras for training purposes. In addition, FY-85 RMTC funds have not been obligated or expended pursuant to Congressional provisions requiring prior agreement on future operation of the facility, including training of Salvadoran troops and resolution of property and business claims made by US citizen Temistocles Ramirez.

Senator Inouye: I am told that the Honduran Armed Forces are increasingly split into two camps: those who approve of U.S. funding for the Contras, the continued operation of the RMTC, and further U.S. military exercises in Honduras, and those who do not favor these activities. What is your assessment? Are these reports of an internal opposition valid?

Secretary Schneider: I think such reports are exaggerated. The Honduran Armed Forces continues its strong support for the close and cooperative relationship enjoyed by our two countries and our respective armed forces. In addition, the Honduran military has clearly expressed its serious concern regarding the threat to regional peace posed by Nicaragua's massive military buildup and continuing subversion, and has urged a strong U.S. affirmation of support for Honduran sovereignty.

Senator Inouye: I understand that a particular concern of junior officers in the Honduran Armed Forces is the increasing number of "disappearances" and the allegation that some Honduran citizens have been killed by the Nicaraguan opposition operating within Honduras. Are these reports accurate?

Secretary Schneider: The suggestion that the number of alleged disappearances in Honduras is increasing is incorrect. We understand that there were five new cases of alleged "disappearances" in 1984, compared with ten in 1983.

The Honduran Armed Forces has expressed its intention to thoroughly investigate charges of military involvement in "disappearances," and an Armed Forces commission is investigating "disappearances" reported to have occurred since 1981. An interim communique was issued on December 31 which stated that some of the people reported as "disappeared" could have been victims of irregular armed groups of the left and right which, the communique stated, had operated in the past in Honduras. Although this statement prompted a variety of press stories linking the anti-Sandinistas to "disappearances" in Honduras, we have no evidence to substantiate such allegations.

The implication that junior officers are unhappy regarding the human rights situation in the military is inconsistent with the diminishing number of alleged "disappearances" and the Armed Forces' commitment to investigate any possible military involvement. There is, however, an increased awareness within the Armed Forces leadership of the importance of human rights issues, and we believe that this concern is shared by junior officers.

NICARAGUAN THREAT TO HONDURAN SOVEREIGNTY

Senator Inouye: Does an armed Nicaraguan opposition pose a threat to Honduran sovereignty?

Secretary Schneider: The primary Nicaraguan threat to Honduran sovereignty is Nicaragua's continued unwarranted military buildup, belligerence and support for subversion. However, the armed Nicaraguan opposition could eventually pose an indirect threat to Honduran sovereignty in two ways. First, Nicaraguan civil conflict near the Honduras-Nicaragua border could serve as a pretext for Sandinista incursions into Honduras. Second, should the armed Nicaraguan opposition suffer military defeat, Honduras would likely receive a major new influx of refugees, including the defeated troops, which could severely strain its ability to provide necessary relief services and maintain security in the relatively isolated border regions.

MILITARY TRAINING FOR COSTA RICA

Senator Inouye: Secretary Schneider, the press has recently reported that Costa Ricans have been provided training at the RMTC.

Are these reports accurate?

Secretary Schneider: Yes, 45 officers of an immediate reaction battalion are currently training there.

Senator Inouye: What is the source of funding for this training?

Secretary Schneider: This training is being funded with Costa Rican FY 84 MAP funds provided under the Continuing Resolution which are separate from those monies requested in the FY 84 supplemental and the FY 85 Congressional presentation for development and operation of a permanent RMTC.

Senator Inouye: What is the authority for providing this training?

Secretary Schneider: In accordance with the 1961 Foreign Assistance Act as amended, the Administration has requested and received from Congress, military assistance for training the Costa Rican Public Security Force, in, inter alia, logistics, operations, maintenance, and border control techniques. Since the Public Security Force has a constitutionally defined national defense role, the provision of military assistance is legal and appropriate under U.S. law.

Senator Inouye: Did the Department of State determine that Section 660 of the Foreign Assistance Act was not relevant to the provision of training to Costa Rica?

Secretary Schneider: Yes. The basis for our determination is the constitutionally sanctioned national defense role of the Public Security Force which has been exercised frequently since Sandinista ascendancy in Nicaragua in 1979.

REGIONAL MILITARY TRAINING CENTER

Senator Inouye: Secretary Schneider, the availability of funding provided in the Fiscal Year 1984 Supplemental for the Regional Military Training Center (RMTC) will expire at the end of this month.

As of February 4, none of these funds have been obligated, nor have any of the Fiscal Year 1985 funds been obligated for the RMTC.

Is the RMTC presently operating?

Secretary Schneider: Yes, Honduran and Costa Rican personnel are training there. The Costa Rican contingent will finish at the end of April; Honduran training will be completed in June.

Senator Inouye: What is the source of funds for operating costs?

Secretary Schneider: These courses are funded through FY 84 MAP monies provided to Honduras and Costa Rica under the Continuing Resolution. These funds are distinct from the FY 84 Supplemental and the FY 85 requests for development and operation of a permanent RMTC in Honduras.

Senator Inouye: Has Honduras indicated that it will permit the resumption of training for Salvadoran soldiers at the RMTC?

Secretary Schneider: As of now the Honduran Government has not agreed to continued Salvadoran training. As you are aware, we are training Costa Rican forces there. The RMTC, as a potentially valuable tool for unit training of friendly Central American armed forces, still remains a goal, although at this point we are unsure of our chances for success.

Senator Inouye: I am informed that a number of Latin American countries have indicated that they would not send troops for training in El Salvador.

Has the Department received any positive indications from Latin American countries regarding their participation in the RMTC?

Secretary Schneider: We are not sure how widespread participation at the RMTC could become. Without a permanent facility, that question is likely to remain unanswered.

Senator Inouye: What is the demand for training at the RMTC?

Secretary Schneider: The need for more and better training, especially unit training, of armed forces from the Central American democracies is compelling. This need is especially acute in the case of El Salvador, where training at the RMTC outside the combat zone played an important role in improving the performance of Salvadoran Army combat units in the field. The need for additional training among Honduran and Costa Rican armed forces is also great, as these two countries are faced with the continued massive military buildup by a belligerent regime in Nicaragua. Development of a permanent RMTC would likely encourage wider regional participation.

Senator Inouye: In view of the limited demand, should the desirability of a permanent facility not be reexamined?

Secretary Schneider: A permanent RMTC would provide unit training at a level not currently being conducted at the various national facilities in Central America. The national facilities are intended to provide primarily basic training. Our original objective in establishing the RMTC remains valid: To train combat units to U.S. standards in an environment where training will not be interrupted by operational assignments.

In addition to the training, a permanent RMTC would foster intra-regional cooperation among traditional rivals and would enhance communality of tactics and interoperability. For these reasons, we believe a permanent RMTC remains a valid goal unless events render that goal unattainable.

Senator Inouye: What does the Department intend to do with respect to future funding of the RMTC?

Secretary Schneider: We have not yet addressed use of the $18.7 million in FY 85 MAP RMTC funds because we are moving one step at a time. We are not requesting FY 86 RMTC funds at this time because the Ramirez case and the Salvadoran training issue remain unresolved. If there is substantive progress in these matters, we intend to move forward with the RMTC.

TRAINING IN PUERTO RICO

Senator Inouye: It has been suggested to me that serious consideration should be given to co-locating the RMTC and the U.S. Army School of the Americas (USARSA) in Puerto Rico.

It would seem that this would have several advantages, among them:

-- A positive contribution to Puerto Rico's economy;

-- Political stability, which would encourage Latin American countries to send their troops for training; and

-- Concurrent training for officers and enlisted men.

What are your thoughts on this suggestion?

Secretary Schneider: While the question of the permanent location of USARSA is under study by the US Army, there are no plans to locate the RMTC anywhere but Honduras. We do not believe that the colocation of the RMTC and USARSA in Puerto Rico would be advantageous. The acquisition of a suitable site and the construction of the physical infrastructure necessary for the RMTC would be more expensive in Puerto Rico than in Central America. Also, the main objective of the RMTC is to train battalion size units. The cost of transporting these units and their equipment from Central America to Puerto Rico would probably be prohibitive. From the point of view of cost to the American taxpayer, the RMTC would be best located in Central America.

BOMBING MISSIONS IN EL SALVADOR

Senator Inouye: Secretary Schneider, last week, when Secretary of State Shultz was before the committee, I asked a series of questions relating to the qualitative escalation of the technology of weapons provided to El Salvador.

I noted that attacks on troop transport vehicles led to the provision of helicopters; attacks on transport helicopters led to the provision of helicopter gunships.

I then asked if the provision of gunships would not lead to attacks on the gunships themselves.

Since the Secretary appeared, an article in the Washington Post written by a respected reporter on defense matters, George C. Wilson, has heightened my concerns. Wilson, reporting on the findings of a Marine after-action report on the U.S. invasion of Grenada noted the following:

> "A big lesson of Grenada, according to the written reports and high-ranking officials interviewed, is that the world's least developed nations can obtain enough modern weapons to down helicopters. Therefore, sending helicopters into hostile areas without first suppressing defenses can be disastrous."

Perhaps General Gast would care to comment on this observation.

What are the implications of this for El Salvador? Does it mean that the bombing will increase?

Secretary Schneider: I do not expect bombing missions to increase in order to support and protect helcopter missions. A favorite tactic of the guerrillas in El Salvador is to mass their forces and attack isolated government units, defeating them through the guerrillas' superior numbers. The only way to respond to this guerrilla tactic without keeping many more men under arms than the Government of El Salvador can afford is to use immediate reaction battalions to reinforce the isolated unit under attack. The guerrillas also wait along the roads or at possible landing zones to attack truck or helicopter convoys carrying reinforcements to the battle site. The UH-1H helicopters that we have supplied to the Salvadorans under our security assistance program are armed only with M-60 machine guns, which are inadequate to suppress ground fire from the guerrillas. In order to protect the UH-1Hs and the troops they carry, it is desirable to use additional aerial fire support. The C-47 AFSP, the A-37B and the Hughes 500 armed with the M-27 weapons system are some of the aircraft in the Salvadoran inventory capable of providing such fire support. U.S. doctrine and tactics call for support by M-60 and M-27 systems when our own troops land under fire, and we believe Salvadoran troops should be afforded comparable protection.

President Duarte's rules of engagement specifically prohibit missions not in support of a military unit on the ground. All bombing missions, indeed all aerial fire support missions, are conducted in conjunction with ground operations. Some are offensive in nature (supporting ground units on an offensive sweep operation) and some are defensive (relieving units under fire or protecting besieged convoys).

I see no reason to expect the level of bombing by the Salvadoran Air Force to increase substantially. Rather, I would expect the level to fluctuate in direct proportion to the level of ground operations in El Salvador by the army. Military helicopters and bomber-capable fixed wing aircraft have the same basic mission in El Salvador. That mission is to support the ground forces -- not to support each other.

Senator Inouye: A significant number of my constituents have written to me, urging that I do all that I can to stop the bombing in El Salvador.

What objections would you have to a moratorium on bombing in El Salvador?

Secretary Schneider: I think a bombing moratorium or restriction is a suitable topic for discussion in the the ongoing dialogue initiated by President Duarte with the FDR/FMLN guerrillas last October. Indeed, President Duarte proposed during the meetings with the insurgents last November a number of specific actions to humanize the conflict, including restrictions on bombings. The guerrillas rejected that proposal. It would be patently unfair, however, to impose restrictions upon the Salvadoran Armed Forces without imposing a similar restriction upon the guerrilla insurgents. The Salvadoran Armed Forces have an admitted advantage over the guerrillas in the air. As irregular forces, the guerrillas have their own advantages in their ability to ambush, mine roads, conduct sabotage, conceal themselves among the civilian population, and engage in terror bombing.

Salvadoran Air Force bombing is authorized only to support ground forces. It would be unfair to the Salvadoran soldier on the ground to give up this support without asking his guerrilla counterpart to give up something similar. I would not ask that of an American soldier, and I do not believe we should ask it of a Salvadoran.

U.S. CITIZEN MURDER CASES

Senator Inouye: Last year, you offered several examples of action being taken by government authorities in El Salvador as a result of suspected abuse by security force members. You specifically cited the cases of the murders of U.S. churchwomen, the AIFLD advisors and Michael Kline.

What is the current status of these cases? Are judicial proceedings still under way in the AIFLD and Kline cases?

Secretary Schneider: The prosecution of those involved in the murder of the U.S. churchwomen has been completed. All five of the former National Guardsmen who committed those murders were convicted and are serving 30-year sentences in prison. Defense attorneys have filed appeals of the sentences on behalf of the convicted men but no action has been taken by the appeals courts. Both the Sheraton and Kline murder cases are the subject of ongoing prosecutions by the government of El Salvador. Two confessed gunmen are under arrest and face trial for the murders committed at the Sheraton Hotel in early 1981. Currently, the trial phase is awaiting the defense attorney's filing of his brief before the court. Although the prosecutions have suffered a number of setbacks in the courts, efforts continue to determine if additional defendants can be charged in those proceedings. The prosecution of the alleged killers of Michael Kline is also proceeding according to Salvadoran law. Three former soldiers are under arrest on murder charges. The prosecution is working to strengthen the case against the defendants before the case is brought to trial. In the past several months, two U.S. citizens and other witnesses have testified in connection with this case and helped the prosecution effort.

Senator Inouye: With regard to the AIFLD case, you specifically cited the arrest of Captain Eduardo Avila as "encouraging."

Is Captain Avila still in custody? Is he still an officer in the armed forces of El Salvador?

Secretary Schneider: Captain Avila was released from custody after a court ruled in March 1984 that no grounds existed for his arrest. Avila remains an officer in the armed forces of El Salvador, although he is unassigned and on unpaid leave of absence. Unlike Lt. Lopez Sibrian, against whom all charges in connection with this case have been dismissed, Captain Avila is still subject to prosecution for his participation in the Sheraton murders if sufficient additional evidence of his involvement can be produced and put before a judge.

Senator Inouye: I am submitting for your review and detailed commentary an article on this issue which appeared in the December 10, 1984 edition of the Wall Street Journal. I particularly want your comments on the authenticity of the facts presented in that article. In addition, I would appreciate your comments on the validity of the conclusions the author draws from the facts he presents.

When you prepare the materials for inclusion in the record of this hearing please be certain to include a copy of the article along with your response.

Secretary Schneider: The U.S. Government view of this case is reflected in the statement attributed by the Wall Street Journal article to Ambassador Pickering that it "epitomizes the worst in Salvadoran society." For the most part, Mr. Krauss' article accurately describes the events surrounding this case. He correctly identifies the susceptibility of the Salvadoran system of justice to intimidation and political pressure. He has also identified some of the crucial instances in which such pressure has been brought to bear on the judiciary and resulted in rulings favorable to defendants in this case--permitting Lt. Lopez Sibrian to appear in a line-up with dyed hair is an example. The frequent ability of powerful individuals and those with powerful allies to avoid accountability for their actions is correctly identified as a major problem in El Salvador.

The Krauss article, however, does make clear that there are Salvadorans who are working to change these execrable aspects of their society. Among those is President Duarte who, along with other reform-minded Salvadorans, is acting to change those unjust social patterns which allow crimes to go uninvestigated and criminals to go unpunished. Duarte has identified strengthening the system of justice as one of the principal goals of his administration; his intention is to improve the structure of the judicial system so that it can resist the pressures of powerful individuals or groups who refuse to abide by the law and then use their power to avoid punishment. The phenomenon of injustice is not one that is unique to El Salvador; few other countries, however, have a leadership as determined to change that phenomenon. Our policy is to support those, such as President Duarte, who have undertaken the reform of Salvadoran society.

MILITARY ASSISTANCE FOR GUATEMALA

Senator Inouye: Secretary Schneider, I must tell you that I do not believe a majority of the Senate will support your request for military assistance to Guatemala. I certainly will not, and I will urge my colleagues to join with me in opposing such assistance.

As you know, I have supported development assistance activities and economic support fund assistance consistent with the objectives of sections 102-106 of the Foreign Assistance Act. I shall continue to do so.

May I remind you of the finding of the National Bipartisan Commission on Central America:

> "An even more serious obstacle in terms of the ultimate containment of armed revolt in Guatemala is the brutal behavior of the security forces. In the cities they have murdered those even suspected of dissent. In the countryside, they have at times killed indiscriminately to repress any sign of support for the guerrillas. Such actions are morally unacceptable. They are also self-defeating -- as long as they persist, the conditions in which insurgency can appear and reappear will continue."

Please provide the chain of command for the Guatemalan Security Force (to the level of Departmental or Brigade Commander) which was in place at the time the Commission issued its report.

Please detail any changes in that chain of command to the present time.

Secretary Schneider: The Guatemalan military adhere to the normal chain of command structure found in most armies worldwide, i.e., brigade commanders report to the army chief of staff, who in turn reports via the Defense Minister to the Chief of State. In some cases, the military zone commander may also concomitantly serve as brigade commander. When the two functions are separate, the zone commander performs more of a staff function, while the brigade commander in his geographic area handles operational matters. This structure has not changed in recent years.

You cited some of the findings of the National Bipartisan Commission on Central America as regards to the security situation in Guatemala. There are others: the Commission noted the continuation of low level insurgency in Guatemala, and the successful efforts of the military to reduce and control the guerrillas through aggressive small-unit patrols and civic action programs.

Since publication of the Bipartisan report, there have been significant improvements in areas of concern to you and the Commission. For example, democratization is on track. It is clear that the current Guatemalan government is fully committed to restoring democracy. General elections have been set for October 27. A new congress will take office on December 15 and a new president will be inaugurated on January 14, 1986.

Free and fair elections were conducted last July for the Constituent Assembly, and the military has publicly announced that it will respect the voters' preferences. The elections promise to give the voters a full range of political choice.

The overall human rights situation has also improved dramatically since the 1981-83 period of violence, and these improvements were noted by Lord Colville, the UN Rapporteur for Human Rights, in his most recent report.

Lord Colville notes that it is difficult to determine with certainty who is responsible for many kidnappings and that many disappearances may really be voluntary efforts of individuals to disappear from society or criminally inspired. Regarding service in the civil defense patrol, he notes that such required service is normal throughout the world.

The Commission encouraged civic action to address the root causes of insurgency. Since the report was written, the Guatemalan authorities have continued to devote considerable army manpower to such activities. In addition, the National Reconstruction Committee has re-built several dozen towns destroyed in heavy fighting in 1981/82, and is encouraging refugees and displaced persons to live there.

In spite of Soviet bloc training and material assistance to the guerrillas, the military has been able to confront them successfully without outside aid. Nevertheless, the shortage of operational helicopters and other supplies could hamper the GOG's ability to sustain current activities and respond to future attacks. The insurgents have promised to intensify their activities in the months leading up to general elections in October 1985.

The Guatemalan military will need assistance to protect the election process and the new government can expect stepped up guerrilla attacks for which it must be prepared. Our modest assistance request will help protect the electoral process and the consolidation of democracy.

Although some abuses at the local level continue, the Guatemalan military seem to have accepted the need to allow dissent and to focus on development as the best, long-run counter-insurgency strategy. The training component of our military assistance will complement this new approach by exposing the Guatemalan officer corps to U.S. democratic institutions and political ideals.

ARMS INTERDICTION IN EL SALVADOR

Senator Inouye: Secretary Schneider, one of the principal objectives of U.S. military assistance to El Salvador is the interdiction of the supply of military materiel to the FMLN from the outside. This objective is specifically cited in the Congressional presentation document for the Fiscal Year 1986 request of $131 million in military assistance.

Last year, in testimony before this Committee, Secretary Shultz provided the following information:

> There has been only one instance of successful interdiction during the past year. A guerrilla patrol carrying documents which linked it to the Farabundo Marti National Liberation Front (FMLN) and to the Nicaraguan Government was intercepted by Honduran troops as it passed through Honduras en route to El Salvador from Nicaragua. A variety of small arms and ammunition was captured.
>
> (Fiscal Year 1985 Hearings on Foreign Assistance Appropriations)

Senator Inouye: Have the armed forces in El Salvador had any greater success in arms interdiction in the past year?

Secretary Schneider: Although there were no successful interdiction efforts in 1984, the Salvadoran armed forces seized and captured guerrilla and illicit arms through discovery of caches and interception of armed fighters inside El Salvador. Improved Salvadoran efficiency has greatly interfered with the easy arms supply methods that once were enjoyed by the guerrillas. During the last six months, the enhanced efforts by the Salvadoran armed forces to cut off guerrilla supplies have been notably effective. The success of these efforts are reflected by the fact that the number of guerrilla attacks and operations noticeably fell last year.

Senator Inouye: What is the number and type of weapons that have been interdicted?

Secretary Schneider: Several hundred rifles, primarily M-16s and AR-15 Israeli assault rifles, and some Belgian-made FMs were seized and uncovered by the Salvadoran armed forces in 1984. Within the last three months, hundreds of thousands of rounds of ammunition have been discovered in man-made caves.

Senator Inouye: Have these arms been traced to their origin of manufacture? Where is that?

Secretary Schneider: Many of the M-16s have been traced as weapons lost during the Vietnam War. The ammunition is primarily from Nicaragua and some Soviet Bloc countries.

STATUS OF FY83 LEBANON ESF SUPPLEMENTAL

Senator Inouye: In fiscal year 1983 the Congress appropriated $150 million in Economic Support Fund assistance to Lebanon. What has been the disposition of those funds? How much remains to be obligated? Will any unobligated funds be returned to the Treasury?

Secretary Schneider: Of the original $150, $40m was reprogrammed for Grenada, $25.5m has been disbursed, and $11.5 has been obligated but not expended. We have also disbursed the $5m provided in FY 85 Lebanon ESF to the American University of Beirut.

The monies spent or obligated thus far have gone to reconstruction, credit cooperatives, vocational training, telecommunications rehabilitation, potable water and sanitation facilities, technical assistance to Lebanon's Council for Development and Reconstruction, relief activities, and the American University of Beirut.

Now pending is a State/AID proposed obligation of an additional $25.4 million. It would include money for health sector rehabilitation, vocational training, health education, relief and rehabilitation, medical facilities, emergency water repair, telecommunications rehabilitation, International College, Beirut University College, and AUB. Almost all of this money would be disbursed rapidly after obligation. The request for obligation is currently with OMB.

We intend to use these funds, and therefore do not support their return to the Treasury.

MOZAMBIQUE

Senator Inouye: Last year Senator Kasten pointed out the dismal record of Mozambique's lack of support for the U.S. Mozambique did not, for example, support the U.S. position on any of the key issue votes which are compiled in the report on Voting Practices in the United Nations.

In view of this record, why is the State Department reversing itself and requesting security assistance funding for Mozambique in fiscal year 1986?

Secretary Schneider: Mozambique has a long way to go towards meeting our concerns in the U.N. Its voting incidence with us is still very low. However, we've made progress. On those specific issues which we designated the ten key issues in the UNGA and on which we lobbied hard, the Mozambicans improved their performance considerably. Whereas last year they voted against us on ten out of ten key issues, this year they abstained on five out of ten. While this is of course far from being satisfactory, it is a promising start. We will continue to press the Mozambicans hard to continue improving their performance.

CARLUCCI COMMISSION RECOMMENDATIONS

Senator Inouye: Secretary Schneider, more than a year has passed since the "Commission on Security and Economic Assistance", the so-called Carlucci Commission, presented its report to the Secretary of State. Can you identify the specific recommendations of the Commission which have been adopted by your office? How has the work of the Commission enhanced the effectiveness of U.S. economic and security assistance programs? What measures have you taken to ensure that the recommendations of the Commission are carried out?

Secretary Schneider: As you know Senator, the Carlucci Commission report constituted a consensus on security and economic issues reached by 38 commissioners representing the full spectrum of American political persuasions. The key conclusion of the Commission, which this Administration has kept very much in mind, is that economic and military assistance must be closely integrated.

Viewing the deliberations of the Commission, one might say that the process, which focused the attention of Administration officials, key congressional figures, and influential persons from the private sector on the instrumentalities of foreign assistance, was almost as important as the report itself. The consensus reflected in the Commission's report is that foreign assistance programs "are potent and essential tools that advance our interests" and make "an indispensible contribution to achieving foreign policy objectives."

The Commission made a number of recommendations about foreign assistance. Some of these, such as establishing bipartisan leadership and citizens support networks, are general and intended to create a rational environment for decision-making in this area. However, many of the recommendations made by the Carlucci Commission were specifically designed to enhance program effectiveness and were addressed by this Administration as such.

For example, the Commission recommended increased assistance levels. While it is not feasible to request a substantial increase in this year of budget constraints, the FY-86 request does reflect the Commission's intention in that funding levels requested are the minimum necessary to continue the indispensible job required of foreign assistance.

Other recommendations of the Commission, and the Adminstration's response to them, include:

-- Continue Support for Development Education

Response: AID continues to make full use of the Biden-Pell Amendment. For FY 1986 AID is requesting $2.7 million for the Development Education program.

-- Adopt a Country Approach to Program Development
Response: We have continued to strengthen the integrated budget process and the related interagency coordination process. This is not the fully integrated country assistance programming recommended by the Commission which is closely related to the Commission's recommendation for a single executive branch foreign assistance institution and which would require major changes in the budget process.

-- Ensure Carefully Integrated Programs for Sub-Saharan Africa and the Caribbean Region, including Central America
Response: The Africa Famine Relief Task Force is a major interagency effort by AID to coordinate and focus USG efforts on Africa's emergency hunger problems. The Economic Policy Initiative and Food for Progress proposals are new US efforts aimed at helping African countries deal with long term problems.

-- Support Policy Reforms
Response: The Administration has whole-heartedly supported this recommendation. Wherever politically practical the Administration is insisting on needed policy reform. The Economic Policy Initiative in Africa is an example, as is AID conditionality.

-- Encourage Human Resourse Development and Institution Building
Response: AID'S current program in this area runs about $190 million, up roughly $50 million from the previous year. In FY 86 AID plans to increase the number of participants to 15,000- up 50% over current levels.

-- Promote the Private Sector
Response: This item is central to the Administration's policy dialogue with foreign governments. AID has specific private sector promotion projects and tries to build into all its projects a concern for private sector development

-- Improve Evaluation
Response: State and AID continue to take steps to improve program evaluation. An evaluation plan is built into the design of each AID project. On the security assistance side the evaluation effort has been improved in the field and, if resources permit, the evaluation capabilities of the Department of State's Bureau of Politico-Military Affairs will also be strengthened.

-- Maintain ESF Flexibility
Response: The programmatic flexibility of this account has been preserved. We will continue to work with the Congress in an effort to limit statutory earmarkings that unduly restrict that flexibility.

-- Increase Flexibility in the DA Account
Response: Aid has streamlined its internal program and management procedures and is continuing to reduce paperwork and delegate additional authority to the field. Last year worldwide deobligation-reobligation authority was made available to AID. This represented a major increase in flexibility by allowing for the reprogramming of funds from activities that are not working out as expected.

-- Support Devolopment Objectives of PL 480
Response: PL 480 programs are increasingly being integrated with our overall agricultural and rural development strategies in developing countries.

-- Increase Concessionality in Military Assistance
Response: This has been done. In addition to forgiven FMS credits to Egypt and Israel, loans at concessional rates have been proposed for some 15 country programs. In addition, both MAP and IMET levels have been increasing. The grant and concessional element of our military assistance has more than doubled in the past three years. This has greatly assisted our security partners by allowing them to improve thier security programs without sacrificing important development investments.

-- Establish a Mutual Development and Security Administration
In January 1984, Secretary Shultz decided that the objectives of this recommendation could be met at least in part by seeking a better integration of existing programs and a unified voice to the Congres from within the existing structure. Accordingly, the existing integrated budget process and the related interagency coordingating mechanism have been strengthened. My office coordinates in close cooperation with AID, the annual integrated foreign assistance budget process. We look at all forms of foriegn assistance and consider the objectives of each program, the foreign policy objectives of the United States, and the overall resource constraints we face. We attempt to maximize the foreign policy and economic development gains of our aid through the most efficient mix of foriegn assistance resources. All foreign assistance agencies participate in this process and each year we have improved and strengthened it. We intend to continue to build on this progress.

In other ways the U.S.-Mozambican relationship has continued to improve streadily over the last year as Mozambique pursues its opening to the West. Mozambique has joined the Western economic mainstream, as they became members of the IMF, World Bank, the EC's Lome Convention. They signed an OPIC accord with the U.S. and continue to woo private foreign investment. Our ambassador to Mozambique enjoys perhaps the best access to President Machel of any envoy in Maputo, and he is gaining growing influence.

Our military assistance proposal for FY-86 ($3.15 million in MAP and IMET) is small but intended to signal to Machel that he can turn to the West for an across-the-board relationship.

It will allow the U.S. to influence a very powerful segment of Mozambican society, the military. Other Western nations have indicated their willingness to join us in providing Machel an alternative to East Bloc sources. While the Mozambicans are not going to throw the Russians out, our increasing influence on Mozambican decision-making is coming at the expense of Soviet influence.

SECTION 620q AND THE BROOKE AMENDMENT

Senator Inouye: Section 620q of the Foreign Assistance Act prohibits the furnishing of assistance to any country six months in arrears on payments of prinicipal or interest to the United States.

Please provide the Committee the current legal position of the Department of State and the Agency for International Development on when the sanctions of Section 620q become applicable for a particular country.

Please provide similar information with respect to Section 518 of the fiscal year 1985 Foreign Assistance and Related Programs Appropriations Act.

Secretary Schneider: The Department of State and the Agency for International Development agree on the position that it is the status of arrearages which determines when sanctions of Section 620q and Section 518 (Brooke) become applicable. Accordingly, whenever loan repayments on covered accounts remain unpaid and reach a status of 6 or 12 months in arrears the respective sanctions of 620q and Brooke are deemed to be immediately in effect.

Senator Inouye: Are there any countries which are presently under the sanctions of either Section 620q of the FAA or Section 518 (Brooke)? If so, please identify them.

Secretary Schneider: At the present time four countries are six or more months in arrears on repayment of AID loans and therefore subject to 620q sanctions. For two of these countries (Costa Rica and Liberia) the sanctions have been waived. The remaining two countries (Ivory Coast and Syria) are under the sanctions of Section 620q of the FAA. Eight other countries are more than one year in arrears in repayments on AID and DOD loans. Accordingly these countries (Brazil, Ethiopia, Guyana, Iran, Laos, Nicaragua, Tanzania and Vietnam) are under the sanctions of Section 518 (Brooke).

Senator Inouye: Are there any countries which are considered as potentially in danger of coming under the sanction of either of these sections?

Secretary Schneider: There are, at the present time, six countries potentially in danger of coming under the sanctions of Section 620q. This includes Bolivia, Dominican Republic, Ecuador, Peru, Niger, and Jamaica. In addition, due to arrearages on DOD loans, Peru Somalia, Morocco and Dominican

Republic are in danger of coming under the Brooke Amendment (518) sanctions in the month of April.

Senator Inouye: Please provide a list of countries for which, during the past three fiscal years, at the time of any rescheduling of official debt repayments to the United States, sanctions of Section 620q or Section 518 (Brooke) had been applied or, in the case of Section 620q, waived.

Secretary Schneider: During the past three fiscal years a total of ten countries were, at the time of rescheduling their official debt, susceptible to sanctions of Section 620q and/or Section 518 (Brooke). Section 518 (Brooke) sanctions were in effect for three of these countries. The remaining seven countries being subject to Section 620q had the sanctions applied in three instances and waived in four instances. The list of countries follows:

Costa Rica	620(q)	Waived
Ecuador	620(q)	Sanctions applied
Liberia	620(q)	Waived
Malawi	620(q)	Sanctions applied
Peru	620(q)	Waived
Uganda	620(q)	Sanctions applied
Zaire	620(q)	Waived
Zambia	Brooke	Sanctions applied
Jamaica	Brooke	Sanctions applied
Sudan	Brooke	Sanctions applied

Senator Inouye: Please provide a list of countries which, during the past three fiscal years, at the time of any rescheduling of official debt repayments to the United States, were within 30 days of the date on which sanctions would have been applied under either of these sections.

Secretary Schneider: In most cases countries in the process of rescheduling official debt had reached the stage of susceptibility to sanctions prior to finalizing debt rescheduling agreements. These are the countries identified in responding to the previous question. Three countries, Morocco, Senegal and Sudan, finalized reschedulings before this point, at a time when they were within 30 days of the date on which sanctions of Section 518 (Brooke) would have been applied.

KENYA

Senator Inouye: Secretary Schneider, I appreciate the significance of the fact that Kenya is one of two countries in East Africa with which the United States has a formal military access agreement. Consequently, I am very much concerned with the political and economic stability of Kenya.

What notable measures has the Kenyan Government taken to enhance political stability since the attempted coup of August 2, 1982?

Secretary Schneider: Through judicious economic and foreign policies, and domestic or internal adjustments, the Kenyan Government has strengthened its political stability. The Kenyan Government has continued to implement an economic stabilization program and has pledged itself to structural adjustments which will ensure a sound basis for economic growth and sustained development of productive capacities. These economic policies are aimed at ensuring that in the future Kenya can maintain its traditional reputation as one of Africa's economic success stories. President Moi has, moreover, taken steps to broaden the base of political participation in the Government, both in the Cabinet and in recent Parliamentary elections. The Government has also made significant efforts to improve relations with neighboring states, particularly Tanzania and Somalia.

These measures have been taken notwithstanding a severe drought to which Kenya responded more quickly and more effectively than other similarly affected African countries. The Government's effective handling of the drought emergency won it both domestic and international plaudits.

Senator Inouye: What notable measures has the Kenyan Government taken in the past three years to enhance economic stability?

Secretary Schneider: The Government adopted a vigorous stabilization program aimed at reducing the budget deficit to around 4 percent of GDP, reducing consumer price inflation substantially from its 1982 peak, and reversing the downward trend in foreign exchange reserves. While stabilization was underway, the Government also undertook steps toward a structural adjustment program with the aims of intensifying agricultural production and improving agricultural marketing, making industry more competitive and export-oriented, and reducing energy consumption.

Senator Inouye: Does Kenya presently have an operative IMF adjustment program?

Secretary Schneider: Kenya signed a standby agreement with the IMF in February of this year.

Senator Inouye: Is Kenya current on external debt repayments?

Secretary Schneider: Yes, Kenya has an excellent record with public and private financial institutions on debt repayments.

Senator Inouye: How has Kenya responded to U.S. efforts to encourage policy reforms?

Secretary Schneider: Overall, our dialogue on economic policy reforms has been good. We have had differences on the implementation of certain measures we believe are necessary to liberalize the marketing of grain in Kenya. This issue has been complicated by the recent severe drought crisis in the country. Basically, the Kenyans have argued that the Government must exert closer control on the distribution of food stocks than we believe is advisable or necessary. We have been urging the Kenyans to expand the role of the private sector in this economic activity. We will continue to consult with the Kenyans on how this objective can be met while accommodating the Kenyans' concerns about stable food supplies. Kenya has responded more readily on liberalization of trade and is improving the access to foreign exchange for the private sector. We are also concerned about population growth, but the Government has now become a vigorous supporter of voluntary family planning programs. Kenya's currently high population growth rates threaten to overwhelm the country's productive capacities and outstrip available employment opportunities. Recently, the Government took a number of steps to facilitate the sale and distribution of contraceptives and improve services.

Senator Inouye: If current economic policies of the Government are continued without significant change, what is the projected requirement for U.S. economic support fund assistance?

Secretary Schneider: It is hard to predict out-year needs for economic support funds. For example, in response to the drought crisis over the past year, we dramatically increased the volume of emergency food assistance to Kenya but reduced the level of ESF funding, which could not be fully utilized as the Kenyans adjusted their own priorities. Our financial support through ESF will continue to be keyed to the stabilization and structural adjustment programs Kenya is undertaking. We anticipate the Kenyans will return to a more vigorous adjustment program as the drought emergency passes and as foreign exchange reserves recover.

Senator Inouye: What policy reforms would the U.S. like to see instituted to reduce the projected requirements for external assistance?

Secretary Schneider: We believe Kenya can usefully address certain trade barriers and industrial development policies which inhibit more efficient export development and which serve as a disincentive to private investment--either foreign investment or from domestic entrepreneurs. We also believe the Kenyan economy could give a larger role to the private sector in agricultural marketing. Both agriculture and industry must play a greater role in providing employment, and this requires incentives to labor-intensive investments and to efficient services Kenya can provide to the region. Certainly, too, Kenya needs a consistent policy on population growth which will be an increasingly serious brake on economic growth. Overall, we have been encouraging the Kenyans to reduce the role of the Government and parastatal institutions in the economy to give freer rein to the private sector to make economic decisions on the basis of market forces.

Senator Inouye: Has the Government of Kenya resisted the implementation of these policy reforms? Why?

Secretary Schneider: For Kenya, economic decision-making touches on fundamental and sometimes sensitive and social issues which persuade the Government to move cautiously on certain reform programs. Expanding the role of the private sector, for example, is seen to open the door for unscrupulous commercial activities of some which the Government cannot easily regulate or control. The Government believes it must balance its responsibilities for basic welfare and concerns over domestic stability against the uncertainties of the effects of reforms which emphasize market forces and cannot be easily controlled.

In another area, population control policies are inconsistent with traditional social mores and must be absorbed through gradual education. Food distribution is a sensitive subject in a country where small changes in supply and price can disrupt basic consumption patterns, and where some parts of the country could be seriously disadvantaged in the distribution of basic food grains.

Senator Inouye: Is it true that U.S. food assistance, originally contemplated under Titles I and III of PL-480, has been provided as Title II grant assistance because Kenya was unable or unwilling to meet the economic conditions requires for Titles I and III? Please explain the circumstances for this easing of the terms of assistance?

Secretary Schneider: This Administration's policy, Africa-wide, is to respond to emergency humanitarian needs as swiftly as possible. Kenya was identified this year by the FAO as one of the African countries most severely affected by drought. Since PL 480 Title II is the primary and fastest mechanism available to meet emergency needs, we responded generously to Kenyan appeals for emergency help with Title II food. However, our emergency assistance did not displace in any way our continuing regular development assistance dialog with Kenya. PL-480 Title I is part of our regular development assistance program in Kenya, and discussions of the details--including economic self-help measures--for this year's Title I program are now underway in Nairobi.

MURDER OF THE SALVADORAN ARMED FORCES SPOKESMAN

Senator Inouye: Secretary Schneider, on March 7, the day Secretary of State Shultz was testifying before the committee, Lt. Col. Ricardo Cienfuegos, Director of the Armed Forces Press Committee in El Salvador, was shot and killed on a tennis court at a sports club in San Salvador.

As you may know, in his capacity as Director of the Press Committee, Lt. Col. Cienfuegos was most helpful to members of the Senate and the staff of this committee during official visits to El Salvador. He was respected and well liked and will be missed by those who have El Salvador's best interests at heart.

The killers of Lt. Col. Cienfuegos' apparently draped his body in the flag of the FPL faction of the FMLN.

Has the FPL publicly claimed responsibility for the murder of Lt. Col. Cienfuegos?

Secretary Schneider: As you stated, the killers of Lt. Col. Cienfuegos draped an FPL flag over his body after the murder. In addition, as the killers ran from the sports club, they shouted that the murder was a military action by the FPL. Neither of the two guerrilla radio stations claimed responsibility for the murder. However, if, as most investigators believe, Cienfuegos was murdered by members of the Clara Elizabeth Ramirez Front splinter group which has allegedly broken away from the FPL, then it would not be unusual for the official guerrilla radio not to take credit for the killings.

Senator Inouye: Who are the principal leaders of the FPL?

Secretary Schneider: The FPL (Fuerzas Populares de Liberacion -- Popular Liberation Forces) is one of the five guerrilla military organizations comprising the FMLN movement. While its leadership is not widely publicized, the three principal commanders of the FPL are believed to be Leonel Gonzalez, Fecundo Guardado, and Dimas Rodriguez.

Senator Inouye: Is the FPL a radical splinter group or is it closely alligned with the FMLN?

Secretary Schneider: The FPL is closely aligned with the FMLN. It is one of the original organizations in the FMLN movement. FPL leaders sit on the FMLN directorate and apparently participate fully in all major FMLN decisions. The FPL originally developed as a breakaway group from the Salvadoran Communist Party in the 1970s. It is now one of the two largest guerrilla groups in the FMLN.

Senator Inouye: Has the FMLN denounced those who committed this cowardly act of terrorism?

Secretary Schneider: I am not aware of any statement by FDR/FMLN leaders, in public or in private, denouncing the murder of Lt. Col. Cienfuegos. Indeed, intelligence reports which I have seen suggest full support within the FMLN organization for the murder. Any doubts appear to be related to the tactical wisdom of committing the murder at this time rather than the basic issue of murdering a public spokesman.

Senator Inouye: Is there any reason to believe that this act may have been perpetrated by rightist elements?

Secretary Schneider: I have neither seen nor heard any reports which suggest that this murder was committed by anyone other than guerrilla terrorists sympathetic to the FMLN. The killers claimed to be acting on behalf of the FPL. They left behind paraphenalia related to the FPL. The FMLN leadership did not condemn or denounce the murder.

Senator Inouye: Please provide a full report on the events surrounding the murder, to include measures taken by the government to ensure that it is promptly and properly investigated.

Secretary Schneider: According to Salvadoran investigators Lt. Col. Cienfuegos regularly played tennis at lunchtime at the Club Deportivo in San Salvador. The club is located near the press spokesman's office at the Defense Ministry. On March 7, 1985, two men wearing tennis clothes entered the club and approached Lt. Col. Cienfuegos while he was waiting to play. They drew weapons and shot him at point blank range. After he slumped back onto a bench, they draped an FPL flag over him and ran to a waiting vehicle outside the club.

The Salvadoran security and police forces initiated an immediate investigation. On March 30, the Armed Forces Press Committee announced the capture of four members of the Clara Elizabeth Ramirez Front (CERF) accused of participating in the murder of Lt. Col. Cienfuegos. According to a press release, the four admitted to murdering 20 people, including Cienfuegos. The CERF is one of the least known guerrilla terrorist organizations associated with the FMLN. It is thought to be a group of urban terrorists who broke away from the FPL in 1982-83. The CERF has claimed credit for a number of political assassinations in San Salvador and elsewhere around the country. Among their purported victims is U.S. Navy Lt. Commander Albert Shaufelberger, murdered in April 1983.

Senator Inouye: Have there been any other recent assassinations of prominent Salvadorans?

Secretary Schneider: The most recent assassination of a prominent Salvadoran was that of former political party leader and retired General Jose Alberto Medrano on March 23. In addition, the U.S. Embassy's compilation of press reports indicate that between January 1 and March 15, 1985, seven political figures were assassinated. Five of the victims were ARENA party officials, one was a member of the PCN (conservative) party, and the last was a village mayor whose party affiliation was unknown.

Senator Inouye: Is this evidence of a movement toward the renewal of urban guerrilla warfare in El Salvador?

Secretary Schneider: Administration officials have stated publicly, in Congress and elsewhere, their belief that the FMLN guerrillas are changing tactics and concentrating greater resources in the cities. We have seen many more murders attributable to the extreme left in recent months. Attacks upon economic targets (electrical towers, telephone switch boxes, public transportation, etc) and terror bombings are on the rise. This apparent shift in guerrilla tactics probably reflects the improved ability of the Salvadoran Armed Forces in the countryside and consequent difficulties of the guerrillas. Unfortunately, the real losers as the guerrillas shift tactics are the Salvadoran urban population.

CONCESSIONAL AND EXTENDED PAYMENT TERMS

Senator Inouye: Please provide for the record an annotated listing of those countries which are eligible for extended terms under the proposed FMS program in fiscal year 1986. Please also provide an annotated listing of countries eligible for concessional financing under the proposed FMS program for fiscal year 1986.

Indicate how this list compares to fiscal years 1984 and 1985.

For each country, please provide a brief note indicating why extended terms or concessional financing is proposed (for fiscal year 1986). For example, the note might indicate that concessional financing is proposed because a country has an unfavorable balance of payments, or a high debt service ratio, or is simply too poor to afford the purchase of arms for its defense.

Secretary Schneider: Following are lists of countries eligible for extended terms for FYs 84-86 and concessional terms for FYs 85 and 86. Justifications for the FY 86 request for extended terms and concessional FMS are attached.

EXTENDED TERMS

FY 84	FY 85	FY 86
Egypt	Greece	Greece
Israel	Portugal	Portugal
Greece	Spain	Turkey
Turkey	Turkey	Philippines
Sudan	Sudan	Korea
Somalia	Somalia	Thailand
	Tunisia	
	Philippines	
	Korea	

CONCESSIONAL RATES

FY 85 (Actual)	FY 86 (Proposed)
Indonesia	Indonesia
Philippines	Philippines
Jordan	Thailand
Morocco	Jordan
Pakistan	Morocco
Tunisia	Tunisia
Greece	Portugal
Turkey	Turkey
Botswana	Botswana
Cameroon	Colombia
Colombia	Dominican Republic
Ecuador	Ecuador
El Salvador	Guatemala
Panama	Panama
Peru	Peru

RATIONALE FOR PROPOSED FY 1986
EXTENDED REPAYMENT TERMS RECIPIENTS

The criteria for extended repayment terms of 10 years grace and 20 years of repayment are both economic and political. The primary economic determinant for selection of a country for extended repayment terms is a weak current economic performance but improved future prospects. Politically, extended terms connote trust and favored status, both of which further our security assistance relationship. We have chosen 10/20 terms for the following countries for these reasons and because we believe that while they have serious short-term economic problems, their long-term prospects are sufficiently good that payments on these extended terms can be met and the extended terms will assist in the economic recovery of each country:

-- Greece. Included in the Agreement on Defense and Economic Cooperation between the Government of the Hellenic Republic and the Government of the United States of America was the intention by the United States to make available such financing on terms particularly favorable to Greece.

-- Korea. Korea spends some six percent of its GNP on defense. It could not spend a much greater percentage without jeopardizing the development of its civilian economy. These defense expenditures absorb money that could be used elsewhere to further the development of Korea's economy. In addition, force modernization will require an expenditure of $9.1 billion over the next five years (almost half this amount will be spent in the U.S.). FMS credits, while constituting only a small part of Korea's defense outlays, provide a margin that will greatly assist Korea in fulfilling its Force improvement goals, thereby narrowing the military imbalance with the North, while maintaining a healthy economy. Korea in FY 84 spent more money on repayment of principal and interest on past FMS loans than it received in new credits. The net outflows from reserves through payment of principal and interest on past loans also contribute to balance of payments pressures on Korea. The more generous terms will ease some of these pressures during a time when, as indicated earlier, there is a pressing need to devote all available resources to upgrading and enhancing Korea's defense abilities. For these reasons, 10 years grace, 20 years repayment terms for Korea are amply justified.

-- Philippines. As a general matter of policy we consider the Philippines to be one of those countries for which 10/20 terms should be available should they request those terms. The Presidential "best efforts" letter, in fact, refers specifically to 10/20 terms. We do not, however, intend to provide credits on 10/20 terms in FY 86, although we may wish to do so in future years. The Filipinos believe, and we agree, that concessional loans with 5/7 repayment terms are more advantageous for them in current economic circumstances than loans at Treasury rates with 10/20 terms, which ultimately cost much more in interest payments.

-- Portugal. In 1984 Portugal met or exceeded most of its targets under an IMF standby program, but at the cost of a severe recession. In addition, the country is facing a major adjustment as it prepares to enter the European Community (EC). Specifically, 10/20 terms will help shift the FMS repayment burden to a period when Portugal's economic situation is likely to be better and more stable. Failure to grant 10/20 terms in FY 86 also would provide very negative signals regarding the US commitment to Portugal's military modernization as well as our sincerity in carrying out our "best efforts" assistance pledge.

-- Thailand. The Thai have initiated a badly needed and costly force modernization program which for the most part they have funded independently. Although we have helped through our security assistance program, our assistance has been mostly credit at market rates. The strong performance of the Thai economy up to 1983 (annual growth of 6-7 percent) enabled it to absorb these costs. But the burden of the modernization program has grown sharply in recent years as the economy has been buffeted by the international recession and steadily declining terms of trade for its main commodity exports. Thailand's debt burden increases at a worrisome rate. In 1976, the debt service ratio was 11 percent whereas by 1984 it had more than doubled. Because of these considerations we assured Prime Minister Prem during his April 1984 visit that we would seek increased concessionality for our security assistance. Current security and economic challenges to Thailand have reenforced our desire to fulfill that commitment.

-- Turkey. Since the adoption of the economic stabilization program in 1980 the Turkish economy has undergone extraordinary structural changes and made significant progress toward long-term growth and stability. However, there are still major problems to overcome. The free-market, private capital re-orientation of the Turkish economy which began in 1980 went into high gear with the installation of Prime Minister Ozal's government last year. The Turks have re-established a good credit rating with the commercial banks, are able to pay their foreign debt on time and in 1984 achieved a healthy 5.6 percent growth rate. In the coming year the government must contend with an inflation rate of over 50 percent and large budget and balance of payments deficits without reducing the rate of economic growth and exacerbating an already high unemployment rate. The economic assistance (including extended loan repayment terms that we and other countries extend to Turkey provides a cushion the Turkish Government needs to help cope with these problems and to maintain political stability until the full effect of its economic reforms take hold.

RATIONALE FOR PROPOSED FY 1986
CONCESSIONAL FMSCR RECIPIENTS

We have proposed concessional FMSCR to 15 countries (not counting the all-forgiven FMSCR for Egypt and Israel) in FY

1986. We have chosen these countries because we believe that while they have serious short-term economic problems warranting less than full Treasury rate loans, their long term prospects were sufficiently good that all MAP grant programs were not justified. The primary determinant of the eligibility of a country for concessional and of the proportion of its FMSCR to be concessional is per capita GNP, though other factors (e.g., debt service ratio) are also considered. Following is a brief sketch of the reasons we chose each country, based on the CPD, plus a comparison as appropriate in millions of dollars of FY 85 allocations and FY 86 requests for MAP, concessional and Treasury rate FMSCR. Per capita GNP figures are for 1983, taken from the World Bank's Memorandum "Per Capita Income Guidelines for Operational Purposes" of November 8, 1984.

East Asia

Indonesia (per capita GNP $560): The terms of our assistance programs are of particular importance to the Indonesians as they adjust to the drop in oil prices, which account for two-thirds of all government revenue and seventy percent of foreign exchange receipts. With the oil price and oil production outlook far from favorable, Indonesia faces at best stagnant foreign exchange earnings and at worst a sharp decline in its export receipts. The government has taken strong action to meet its economic difficulties even though this has meant substantial budgetary restraints in economic development areas.

	FY 85 Allocation	FY 86 Request
FMS (C)	20.0	34.7
FMS (T)	12.5	-0-

Philippines (per capita GNP $760): The Philippines is experiencing its most critical economic crisis since World War II. A serious liquidity problem on top of a major structural imbalance in the economy forced the Government of the Philippines in October 1983 to devalue the peso, declare a moratorium on the repayment of commercial debt principal, open negotiations with the IMF for a standby arrangement, and seek debt rescheduling. Agreement has been reached with the IMF on a $615 million standby credit, a crucial first step toward overcoming the financial crisis. In the meantime, the Philippines registered real GNP decline of around 5.5 percent in 1984, with inflation of over 50 percent. Positive real GNP growth is unlikely to resume until 1986, and then only at a modest rate. While as noted per capita income for 1983 was $760, by this year it had dropped to $600. The need to restrict government expenditures, curtail imports and service a large external debt will weigh heavily on the Philippines for the remainder of this decade.

	FY 85 Allocation	FY 86 Request
FMS (C)	15	50
MAP	25	50

Thailand (per capita GNP $810): Thailand has made significant progress in dealing with its communist insurgencies. The Thai Government is committed to an extensive program of rural development and job creation. In light of these competing requirements (over 20% of the national budget already goes to defense), US assistance for Thailand's force modernization is particularly important if it is to become militarily self-reliant without incurring an unacceptable debt burden. Recently, Thailand's external debt has increased noticeably and while the government has made control of the debt a top priority. The IMF expects debt service to consume 25% of Thailand's earnings from export of goods and services this year, up from 20.5% in 1983. Additionally, Thailand faces persistent current accounts deficits and has had to devalue its currency.

	FY 85 Allocation	FY 86 Request
FMS (T)	95	57.5
FMS (C)	0	40
MAP	5	5

Near East

Jordan (per capita GNP $1710): Jordan confronts serious financial problems in meeting its military needs. A decline in foreign exchange reserves has placed contraints on the Jordanian economy and foreign debt service (perhaps at 30% of export earnings) is expected to increase over the next few years. Although at the 1978 Baghdad Arab Summit Arab, oil-producing states pledged annual subsidies of $1.2 billion to Jordan, the full amount has never been received and Jordan's overall aid from Arab sources has declined sharply. Despite these constraints, Jordan received high marks for its economic management and prudent fiscal policies from an IMF team which visited the country in 1983.

	FY 85 Allocation	FY 86 Request
FMS (T)	42.5	30
FMS (C)	47.5	65

Morocco (per capita GNP $750): Currently in difficult economic circumstances, Morocco seeks increased assistance while undertaking the economic reforms and IMF-mandated austerity measures designed to bring the country into balance of payments equilibrium. Economic weakness is attributable in great part to factors beyond Morocco's control: drought, appreciation of the dollar, deteriorating terms of trade, and an expected debt service ratio of over 50 percent in 1985.

	FY 85 Allocation	FY 86 Request
FMS (T)	3	5
FMS (C)	40	45

Tunisia (per capita GNP $1290): After several years of difficulty, Tunisia's economy is showing signs of modest recovery. There has been growth in manufacturing and phosphates and petroleum production, although stagnation has continued in the agricultural sector. An increased trade deficit combined with lower tourism receipts and remittances, however, have added to the country's indebtedness, raising the debt service ratio to near 20 percent. Efforts were made in early 1984 to reduce internal budget deficits by eliminating food subsidies, but this sparked serious unrest.

	FY 85 Allocation	FY 86 Request
FMS (T)	25	26
FMS (C)	25	27
MAP	15	16

EUROPE

Portugal (per capita GNP $2190): The US has pledged its best efforts to assist Portugal with military modernization and economic development. Such support is vital at a time when Portugal - one of the poorest countries in Western Europe - is seeking to reform its troubled economy by pursuing a stringent austerity program in the short term (1984-85) and programs for economic recovery and modernization over the medium term (1985-87). Portugal's debt service burden over the medium term is expected to remain in the troublesome range, from 30% to 36% of earnings from its export of goods and services.

	FY 85 Allocation	FY 86 Request
FMS (T)	55	30
FMS (C)	0	35
MAP	70	70

Turkey (per capita GNP $1230): Turkey is in the midst of a radical restructuring of its economy toward free enterprise and market forces. By implementing a stringent stabilization program in coordination with the IMF, World Bank and Organization for Economic Cooperation and Development (OECD) donors, Turkey has improved its balance of payments situation. Turkey's debt service burden currently estimated at 30% of export earnings will require careful management, however, and the Turkish economy is still not in a position to meet critical defense and economic requirements without significant concessional assistance.

	FY 85 Allocation	FY 86 Request
FMS (T)	235	210
FMS (C)	250	345
MAP	215	230

Africa

Botswana (per capita GNP $920): Botswana's economy is free market-oriented rather than state-controlled and the government follows a fiscally conservative policy. Its population of about one million is scattered over a Texas-sized area lacking in infrastructure. Botswana's agriculture and livestock sectors have been ravaged by three consecutive years of drought, requiring increasing government expenditure on relief activities, and drought is expected to continue.

	FY 85 Allocation	FY 86 Request
FMS (T)	5	6
FMS (C)	4	4

Latin America

Colombia (per capita GNP $1410): Colombia's long-term economic prospects are good, but it faces deepening economic problems in the near term, given commercial bankers' unwillingness to extend new credits. Colombia has been able to service its foreign debt, but at the cost of cutting its international reserves. The economy is sluggish, with growth at only 1% per annum for the past two years and unemployment at or above 14%. International reserves have fallen alarmingly, from $5.6 billion in 1982 to $1.7 billion in mid-1984. The defense budget has been reduced dramatically; at the same time, Colombia has increased the internal security role of the armed forces in combatting narcotics-related terrorism.

	FY 85 Allocation	FY 86 Request
FMS (T)	4	10
FMS (C)	4	10

Dominican Republic (per capita GNP $1380): In the face of continuing balance of payments difficulties, due mainly to heavy dependence on imported oil and lower world prices for exports, the Dominican Republic lacks sufficient foreign currency resources to acquire needed military equipment and other imports. The country is in the midst of an economic adjustment program to provide for future equilibrium and growth. The Dominican Government has already implemented a number of adjustment measures including greatly increasing the retail price of petroleum products by transferring oil imports to an intermediate exchange rate. The adjustment program will require exchange rate unification and major cuts in government spending. Despite efforts to stabilize the economy and the fiscal situation, the Dominican Republic has accumulated sizable arrearages. Negotiations with the IMF for a standby agreement by early 1985 are underway.

	FY 85 Allocation	FY 86 Request
FMS (C)	0	4
MAP	5	6

Ecuador (per capita GNP $1430): The new government of Leon Febres-Cordero, favors encouraging private enterprise and the operation of the free-market system. It must struggle, however, with a $6.9 billion external debt while attempting to implement its economic program and upgrade national development capabilities of its security forces. Debt service, if no payments are rescheduled, consumes over 60% of export earnings. The government's commitment to greater reliance on the individual and the market place to regulate economic decision-making is a radical departure from the more traditional interventionist policies found in Latin America. Except for a few arrearage problems, Ecuador has complied with its first IMF agreement, which expired in July, and the government supports bilateral negotiations with its creditors.

	FY 85 Allocation	FY 86 Request
FMS (T)	2	0
FMS (C)	2	5

Guatemala (per capita GNP $1120): Guatemala is experiencing serious economic difficulties stemming from low current prices for its traditional agricultural exports and from the collapse in regional demand for its manufactured exports. In addition, insurgent activity has harmed agricultural production and tourism. Real growth in GDP in 1983 was a negative 2.5 percent, and government fiscal deficits have widened. Guatemala's principal short-term economic problem is its inability to obtain financing to maintain essential imports. Guatemala's foreign exchange crunch threatens to further cripple the economy, already hampered by tight import controls.

	FY 85 Allocation	FY 86 Request
FMS (C)	0	10

Panama (per capita GNP $2070): Panama's economy, one of the most open in the region, is heavily based on services which it provides to faciliate international trade, primarily in Latin America. With the onset of Latin America's debt crisis in 1982, the region's import demand fell sharply, and as a result demand for many of Panama's services -- in International Banking, the Colon Free Zone, and in Canal transit services -- fell sharply. Given prospects for a slow recovery in import demand in the region, Panama's service sector, its economic backbone, faces a number of years of at best sluggish growth. While the government must limit its expenditures (and has limits on the amount it can borrow placed on it by an IMF Standby Arrangement), the Panama Defense Force must undertake increased responsibilities for Canal defense under the 1977 Canal Treaties, and increased spending for its modernization is essential. Our proposed concessional FMS program for FY 86 countributes to that modernization process while placing a minimal strain on Panama's near-term budget outlays.

	FY 85 Allocation	FY 86 Request
FMS (C)	0	4
MAP	10	14.4

Peru (per capita GNP $1040): The pro-Western Belaunde administration's efforts to reorient the economy from statist to a free market system have foundered in the face of the "El Nino" natural disaster, the Latin American debt crisis, weak mineral export prices, the counter-insurgeny effort againt the Sendero Luminoso, and the persistent legacy of the preceding regime. Economic contraction, manifested by a 14 percent fall in per capita income in 1983 and poor results in 1984, has reduced private sector credit availability, as government borrowing needs have produced a squeeze. Lack of government revenues has hampered availability of counterpart funds, slowing development projects. Unemployment and inflation have risen sharply, creating political instability. Peru's medium term debt burden is one of the most serious among developing countries. Pending final negotiation of agreements to reschedule debts due in 1984 and 1985, Peru has accumulated several hundred million dollars in payment arrearages. Debt service for 1984 before rescheduling is estimated to be approximately 72% of earnings from exports of goods and services. Should rescheduling be completed successfully this will drop to 34%.

	FY 85 Allocation	FY 86 Request
FMS (T)	3	0
FMS (C)	5	10
MAP	0	18.35

QUESTIONS SUBMITTED BY SENATOR DECONCINI

CYPRUS PEACE PROCESS

Senator DeConcini: The Administration's request for military aid to Turkey is $785 million, $85 million higher than the amount allocated under last year's continuing resolution. Mr. Schneider, in your statement justifying this request you state that "we continue to pursue vigorously progress on Cyprus. The Government of Turkey has accepted and supported the Secretary General's initiative. This initiative offers the best available prospect for success. We must not undermine it by considering punitive conditions on assistance to Turkey which can only stiffen the resistance of those who oppose compromise."

How long have discussions on the Cyprus issue been underway through the auspices of the Secretary General?

Secretary Schneider: The mandate under which UN peacekeeping forces were placed in Cyprus was passed by the Security Council in 1964, troops have remained on the island since that date. In the same year, the UN Secretary General undertook the search for a negotiated settlement through the use of a Special Representative on the island. In 1968 intercommunal talks between the two communities were begun and continued, with some interruptions, until 1983.

Senator DeConcini: Have there been any breakthroughs on the Cyprus issue since the Congress passed the Continuing Resolution in October other than the January meetings between President Kyprianou and Turkish Cypriot leader Denktash which did not result in an agreement?

Secretary Schneider: In September of 1984, the UN Secretary General began a series of proximity talks with the two Cypriot leaders in New York. Those talks, held in three rounds during the closing months of 1984, produced an historical narrowing of the gap between the two sides' positions. As the Secretary General reported, this progress made possible the summit in January. At that meeting the Secretary General presented the draft agreement produced in the proximity talks. The Turkish Cypriots accepted the draft "in toto" while the Greek Cypriots could not. Notwithstanding the lack of an agreement, the proximity talks and the summit represented welcome developments and the two sides remain only narrowly divided according to Mr. Perez de Cuellar.

Senator DeConcini: How has the Administration been "vigorously" pursuing progress on Cyprus?

Secretary Schneider: We have been in close and constant communication with both Cypriot parties and with the governments in both Ankara and Athens, encouraging all parties to find the flexibility and make the concessions necessary for progress. These contacts have included two meetings between Presidents Reagan and Kyprianou in the recent past, the March 11, 1985, meeting between Vice President Bush and President Kyprianou, and regular meetings held by Secretary Shultz and by Special Cyprus Coordinator Richard Haass with leaders of both communities and of the Greek and Turkish governments.

We believe our influence affected positively the decisions made by the Turkish side during the proximity talks late in 1984, decisions which permitted their announcing their agreement to the Secretary General's proposal. We also maintain close contact with the Secretary General and provide him our assistance when possible. Our proposal last year to create a "Cyprus Peace and Reconstruction Fund" is another part of our vigorous efforts. When a settlement is achieved or when significant progress is made toward that end we will be prepared to request authorization of funds to be used in furthering the development of a new federal Cypriot state.

Senator DeConcini: When do you expect a breakthrough on the Cyprus issue?

Secretary Schneider: As I have said, the gap between the two sides' positions has been narrowed to an historical degree following the Secretary General's proximity talks. A breakthrough can be expected when the two sides finally determine it is in their best interests to compromise to achieve a federal solution rather than to perpetuate the present partition of their country. I could not estimate when that might happen. I assure you, however, that the Administration will continue actively to pursue that end.

NEW ZEALAND PORT ACCESS AND ANZUS

Senator DeConcini: Mr. Schneider, as you well know, the decision of the New Zealand government to refuse our nuclear armed or nuclear powered ships access to New Zealand ports has put somewhat of a question mark on the status of the ANZUS alliance. In your Security Assistance Program Congressional Presentation, New Zealand's partially completed military equipment acquisition program is described as being "in something of a state of limbo as the new Labour government formulates its policies on a host of key matters."

Does the State Department consider the above factors to indicate a serious problem in U.S.-New Zealand relations?

Is our government engaged in active negotiations with the New Zealand government to establish a mutually agreeable arrangement regarding the visits of our naval ships to New Zealand ports?

Secretary Schneider: The Department does, indeed, consider that serious problems have developed in U.S.-New Zealand military and security cooperation under ANZUS because of the policies of the Labour government which deny port access to U.S. Navy ships.

We have been involved in discussions with officials of that government since it came to office last July in an effort to resolve these difficulties. These contacts continue, but we have no indications at this time that the New Zealand government is prepared to remove the barriers to port access.

Senator DeConcini: Senator Cohen has introduced a sense of the Senate resolution calling for the U.S. to impose certain military and economic sanctions against the New Zealand government until a satisfactory arrangement is made on the issue of our ships visiting their ports. This resolution has over 50 cosponsors. What does the Administration think of that type of approach?

Secretary Schneider: Some of the specific measures in Senator Cohen's resolution have already been taken--military and security cooperation with New Zealand has been sharply curtailed, New Zealand has lost the "injury test" on its exports to the U.S. (but on trade policy, not ship visit, grounds), and talks have continued with New Zealand seeking to remove the port ban. The resolution also calls for establishment of a bilateral security arrangement with

Australia. We are pleased with our current defense cooperation arrangements with Australia under ANZUS.

CHILE IMET AND SAFETY PROPOSALS

Senator DeConcini: The Administration is requesting $100,000 for International Military Education and Training (IMET) assistance for Chile and is leaving the possibility open for the purchase of spare parts and some new equipment through Foreign Military Sales (FMS) procedures.

Given what seem to be increasing human rights problems in Chile, is it likely that the sale of these military items would be approved by the Administration without a substantial improvement in the Chilean government's human rights policies?

Secretary Schneider: The proposed safety amendment would permit the sale or licensing for export of items (including technical manuals) which are essential to the safe operation of previously supplied equipment, thereby eliminating unnecessary life threatening situations.

With regard to the proposed training amendment, we need more communication rather than less, and especially with the military establishment, which will play a key role in the transition to democracy which is under way -- although not at the pace we would like.

We believe that the lesson to be drawn in the case of Chile is that almost a decade of sanctions has had an effect contrary to our goals in that country. We believe that the proposed training would help redress this problem and enhance our ability to support a transition to democracy in Chile.

Both the training and the safety proposals should be viewed in the context of our overall relations with Chile and our policy of support for democracy in that country. Should they be approved, implementing action will be taken in the context of the totality of our relations with Chile, including human rights.

THE U.S.-PHILIPPINE RELATIONSHIP AND MARCOS

Senator DeConcini: The assassination of Mr. Aquino upon his return to the Philippines heightened public concern about the human rights situation in that nation. Press reports highlight the fact that President Marcos is becoming increasingly isolated. As a base country for the United States, the Administration is requesting a Security Assistance program for the Philippines totaling over $197 million.

What is our government doing to ensure that our relationship with the Philippines will remain secure and intact after President Marcos leaves power?

Secretary Schneider: Our Embassy in Manila maintains close contact with the broadest spectrum of Philippine society, including all democratic opposition parties. In Washington, our doors are also open to democratic leaders from a variety of walks of life regardless of their position with regard to the current government. We make clear in such meetings, as well as in public speeches and Congressional testimony, that our concern is with maintaining the closest relationship with the people of the Philippines. Our objective is to help the Philippine people build political, economic and military institutions that will enable current and future governments to address the nation's problems with the full confidence of the people.

THE PHILIPPINES: U.S. MILITARY ASSISTANCE AND HUMAN RIGHTS REFORMS

Senator DeConcini: A recent speech by Assistant Secretary of State Paul Wolfowitz, indicates that the Administration is tying the additional $15 million it is requesting for military assistance to the Philippines to the continuation and expansion of human rights reforms in the Philippines. Is this an explicit linkage that has been made clear to the Philippine government? What other steps are we taking to promote human rights reform?

Secretary Schneider: Our policy towards the Philippines rests on the premise that fundamental political, economic and military reforms are needed if stability is to be preserved and economic health restored. A central objective of our assistance is to contribute to the needed reforms, including full respect for human rights. We have made this clear through both public statements and private diplomacy. The communist insurgency cannot be combatted effectively without also addressing the political and economic problems--and this includes the serious problem of military abuses of civilians--that the communists exploit. At the same time, the insurgency poses a military challenge requiring an effective military response. We have made clear to the Filipinos our conviction that without basic changes, the Philippine military will not be able to stem the tide of insurgency. Promises and good intentions, without genuine follow-through, simply will not suffice. Our proposed improvements in the amounts and terms of military assistance are premised on the full expectation that the incipient reforms we have seen will continue and expand.

SUBCOMMITTEE RECESS

Senator KASTEN. The subcommittee will stand in recess until 2 p.m., tomorrow, March 14, at which time we will receive testimony in support of the administration's budget request for Refugees, Narcotics Control, and Anti-Terrorism Programs. The subcommittee will stand in recess.

[Whereupon, at 2:45 p.m., Wednesday, March 13, the subcommittee was recessed, to reconvene at 2 p.m., Thursday, March 14, 1985.]

FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1986

THURSDAY, MARCH 14, 1985

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 1:40 p.m. in room S–126, the Capitol, Senator Mark Hatfield presiding.

Present: Senators Hatfield, Specter, Leahy, and DeConcini.

DEPARTMENT OF STATE

BUREAU FOR REFUGEE PROGRAMS

STATEMENT OF JAMES N. PURCELL, JR., DIRECTOR, BUREAU FOR REFUGEE PROGRAMS

ACCOMPANIED BY:
- **ROBERT L. FUNSETH, SENIOR DEPUTY ASSISTANT SECRETARY FOR MANAGEMENT**
- **ELLIOTT ABRAMS, ASSISTANT SECRETARY FOR HUMAN RIGHTS**
- **ROZANNE OLIVER, DIRECTOR OF PROGRAM BUDGET**

OPENING REMARKS OF CHAIRMAN HATFIELD

Senator HATFIELD. The subcommittee will please come to order. We are going to continue our hearings on the administration's budget request for agencies under the jurisdiction of the Appropriations Subcommittee on Foreign Operations. We will be hearing testimony from Mr. James Purcell, the Director of Refugee Programs for the State Department, in support of the State Department's refugee assistance programs; Mr. Jon R. Thomas, Assistant Secretary, Bureau of International Narcotic Matters, in support of the State Department's narcotics program; also the testimony of Ambassador Parker Borg, Acting Director, Office for Counter Terrorism and Emergency Planning for the State Department in support of the counter terrorism program.

Senator Kasten, chairman of the Foreign Operations Subcommittee is unable to be here this afternoon. He has duties on the Budget Committee. Therefore, I will be chairing part of the hearing. Senator Specter will be here around 2 to hear testimony on the narcotics programs and counter terrorism.

I would like to state for the record that there will be questions submitted for the record by members of the subcommittee that may not be here today. We would hope to have your replies in a matter of 2 weeks.

PREPARED STATEMENT

Mr. Purcell, I am going to forego an opening statement that I have to express my deep concern, but I would like to have it placed in the record. If I could, I would like to just highlight some of my continuing concerns and to express my deep appreciation to you and to your staff and other members of the department for being responsive to a number of concerns that we have expressed over the past years.

[The statement follows:]

PREPARED STATEMENT OF HON. MARK O. HATFIELD

U.S. SENATOR FROM OREGON

The United States policy of protecting persons who flee persecution and of resettling refugees from areas of the world where repatriation is not foreseeably feasible, is being threatened by a growing sentiment which basically says that America has done its share and can now be justified in ignoring the cries of suffering and oppression which ring in deafening tones throughout the world.

Yes, the world's refugee situation is worsening, not improving. Despite the United States heroic protection and resettlement efforts, the head count of refugees in this world is at least 10 million and growing. And so there are those who feel we must move on, close up shop, and accept the death march of refugees as an unavoidable consequence of communism and totalitarianism.

I reject such sentiments. The bright light of liberty which this country holds out to the millions of persecuted persons who live in the dark corners of the world cannot be allowed to burn out. It must be refueled with a new commitment to ensuring first asylum; a new commitment to resettling refugees from the trouble spots of the world; and a new declaration that America's responsibility to those pitiable souls persecuted, shelled, bullied, battered and barbarized shall not wane under any circumstances. Indeed, it cannot wane, for our freedom is intimately connected to the freedom which is being pursued beyond our borders.

And let me add that anyone who believes that the U.S. can have an effective refugee policy without resettling a reasonable number of persons from first-asylum, front-line countries does not understand refugee policy. I have heard rumors that U.S. officials are privately considering a refugee policy with trifling resettlement numbers, and I can assure you that such a policy is doomed to fail, and that I will fight it. It is short-sighted. Those self-proclaimed defenders of America who support the abolition of a meaningful resettlement policy had better look at history before they adopt such a myopic picture -- the blood shed and systematic murder of millions of human beings in Germany, Uganda, Poland, and Cambodia came quickly and quietly because the world community was not interested in the plight of those beyond its territorial boundaries.

I do not need to deal in hypotheticals. The crisis today along the Thai/Cambodian border has the potential for even greater human suffering. April showers may bring May flowers in the United States, but those showers will bring tough decisions for Thailand, the UNHCR, and the U.S. on what to do with the 250,000 Khmer who have been driven into Thailand by the tons of Vietnamese shells. In the past, relatively small groups of Khmer civilians had been evacuated into Thailand during Vietnamese attacks and had been returned to the border once the rainy season started or the shelling stopped. But because of the extent and success of the Vietnamese assault this winter, the situation has drastically changed, and here are the facts. The refugees' makeshift towns and communities have been burned to the ground; the Vietnamese now have mined those border areas; and, the Thais will not be comfortable with an additional 250,000 refugees within its borders. And so what is going to happen to these vulnerable clusters of humanity? There are no clear answers, and we had better start looking. A decision will have to be made in a matter of weeks.

Will the U.S. be a silent, guilty bystander if the Khmer are driven back across anti-tank ditches into minefields? It is my hope that the U.S. immediately demand that the Khmer Rouge resistance forces and their supporters be separated from the 175,000 Sihanouk and Son Sann fighters and sympathizers, and that the U.S. plead with Thailand to protect these latter refugees. Thailand has earned its place in history as a country of compassion, and the U.S. must lend its active support to Thailand to maintain that position.

Reports also indicate a Vietnamese crackdown in Laos. I have been pleased with the response Mr. Purcell has provided me when I wrote the Secretary of State protesting the indiscriminate turning back of Laotian refugees. I will ask for the details of the newly-announced Thai plan and the efforts of Ambassador Dean and others to maintain a strong U.S. presence in refugee decisions made by Thailand.

I would like to know precisely why the rejection rate for individuals seeking asylum from El Salvador is so high, particularly in light of the stories I have heard from refugees from that country who seem to be clearly within the definition of the 1980 Act.

But most of all, I would like to hear from this Administration whether the refugee policy we have held out to the world as our expression of compassion and commitment to freedom is or is not an endangered commodity. U.S. affirmation is desperately needed today if we are to be responsive to cries of refugees in this world whose standard of living is beneath that of household pets in America.

GROWTH IN REFUGEE PROBLEM

Senator HATFIELD. I would only observe, as one looks at the globe, that the refugee problem that we have been dealing with for a number of years has really grown. It is not improving. When you crank in the growing number of African refugees and refugees who are created out of the conflicts throughout the world, I figure that perhaps there are as many as 10 million. and perhaps that figure is low.

As a result, we cannot, as a country that has been dedicated to liberty and founded on freedom, stand by and accept the death march of refugees as an unavoidable consequence of totalitarianism or communism or whatever it might be.

I believe that as the light of liberty, which we have been to millions of people who live in all the dark corners of the earth, we cannot allow this light of freedom to burn out. It has to be refueled by, I think, a number of new statements of commitment and actions that follow those statements.

FIRST ASYLUM RESETTLEMENTS

If we have to make a new commitment to ensure the first asylum, I think we have to make a new commitment on the matter of resettling refugees from the troubled spots of the world and a new declaration that America's responsibility to those critical souls who are persecuted, bullied, shelled, battered, and barbarized will not wane, under any circumstance.

It seems to me, also, that we have to have an effective refugee program which must include a resettlement of a reasonable number of persons from first asylum, frontline countries, and we have to clarify and constantly restate the totality of the comprehensiveness of our refugee program.

I don't think that resettling lesser numbers than those levels that have been appropriated—and I emphasize the term "appropriation," because you do come here before us asking for appropriation levels for a figure of $48,000, then we get down to the actuality, to what has occurred in the previous fiscal year, with the carryovers and so forth, and we haven't reached that.

I know there are a lot of reasons given why, but I don't think we can really continue that course of action because, No. 1, it violates the basic integrity of our appropriations process; and, second, it holds out false hope that is never implemented, to numbers of people who might otherwise qualify under those levels.

PROBLEMS IN SOUTHWEST ASIA

I need not tell you that we have special problems in Southwest Asia, with the addition of 250,000 refugees in the Thai area, brought forth by the new shelling and destruction by the Vietnamese. We have the rainy season with what is going to happen. We have the new mining of that area close to the border, the continued concern of the Thai government to resettle those refugees, not by pushing them back into the mine field to death and destruction. You know we can't turn our backs on that either.

So I think there are going to be some tough decisions that are going to have to be made in a very few weeks here. I would also emphasize the need to separate the Khmer Rouge from the Sihanouk and the Son Sann forces. I am not suggesting there are not difficulties there; taking that action, processing, calls for separation.

I also want to thank you, Mr. Purcell, on that Laotian problem that we have taken up with you and for your response. We would like, of course, to get into the El Salvador refugee matter, regarding why there is such a high rejection there within the provisions of the 1980 act on refugees.

I am just expressing sort of a highlight of my continuing concerns and as you well know, I have enjoyed working with you on them. I will exercise all the influence I have, as the chairman of the Appropriations Committee, providing you the sources and the tools with which to do the job within the context of the law and the principles and ideals which our country stands for.

I think it offers us an opportunity to speak to the whole world and particularly the Third World and to offset some of the skilled propaganda that goes forth from the Moscow printing presses and their propaganda machine. We have great opportunity to not only meet a human need, but at the same time, to develop a greater opportunity to capture men's minds as well as their hearts in the cause of liberty.

So with those few remarks—Senator, would you have any remarks that you would want to make?

STATEMENT OF SENATOR DECONCINI

Senator DECONCINI. Senator, thank you so much. You said it so well, as usual. I just want to echo that I think so much can be done, not only for the humanitarian reasons that you point out, but, as you just finished, from the propaganda failures of the totalitarian states. Ethiopia is a perfect example.

I want to thank Mr. Purcell for the effort that your organization gave us on our visit there. To see how terribly the Communist bloc countries have failed to respond and what a very heart-warming experience it is, at least from the standpoint of seeing U.S. participation, and other Western nations. I can defend spending money overseas when it is in the area of refugee programs.

I hope that your success in administering these substantial funds that the chairman has supported in increasing aid for Africa and your budget, will be carefully monitored because nothing would be worse than if there was an unexplained use of some of those funds. I am not suggesting that there is. I just want to caution you about that and ask for your help in asking for our assistance in line iteming or language that would assist in getting the money to the transportation area.

REFUGEE PROBLEM IN EL SALVADOR

I also have great concern, Mr. Chairman, about the Salvadoran problem and the failure of the State Department to recognize some responsibility for literally hundreds of thousands of people who have been displaced. Senator Simpson in the Judiciary Immigration Subcommittee has agreed to hold hearings on a bill that I have introduced that would grant them temporary status here for 18 months.

I hope that your agencies will continue to monitor that with an open mind and not the political problems that I know it poses to the State Department in admitting that there could be some temporary status granted here.

It is disturbing to me and I hope that you will, Mr. Purcell, keep looking at that and at least find some justification in present law that would permit for them to stay. Thank you.

PUBLIC SUPPORT OF REFUGEES

Senator HATFIELD. Senator, I wonder if you have had the same experience that I have had. The movie, "Killing Fields" has developed a real new understanding, and focused public opinion on this whole matter of refugees, particularly in Southwest Asia.

Whereas, so many films are filmed in Hollywood, they imitate or attempt to create the actuality of that incident or that scenery. In this case, it is filmed in the setting. Although the movie has ended, the suffering goes on. While we can walk out of the theater, that doesn't mean that is the end of the drama that has been portrayed. It is important to develop public support of any policy of this kind.

Thank you for your patience, Mr. Purcell. We will have your entire statement put in the record and you may highlight or summarize.

INTRODUCTION OF ASSOCIATES

Mr. PURCELL. Thank you, Mr. Chairman. I would like to introduce my colleagues. I have with me Assistant Secretary for Human Rights, Elliot Abrams. He and I share the responsibility for humanitarian programs in the department; Robert Funseth, Senior Deputy for Management; and Rozanne Oliver, our budget officer.

SUMMARY OF STATEMENT

Mr. Chairman, I shall summarize my statement. This, Mr. Chairman, marks my sixth year in coming up to defend the State Department's proposals for refugee affairs. During that time we have been involved in a lot of crises.

I am very proud of what the United States has done. I believe we have shown the kind of leadership that is expected of the government with the kind of traditions that we honor. I can say that, however, about past performance over time.

But looking at today, we are faced with as perilous and dangerous a year for refugees as I have seen in my brief history with this program. We have got a dangerous problem underway in Africa. Refugees are fleeing conflict, compounded by a serious and tragic drought.

We have had almost 250,000 Khmer refugees that were up-rooted and forced into Thailand. We have got problems of protecting Palestinians in the Middle East. We have got continually dangerous problems in Central America.

INCREASE IN REFUGEES

Wherever we look the needs are growing. Your estimate of 10 million is perhaps a correct estimate. We say it is anywhere from 8 to 10. Whatever it is, it is growing. It is growing rapidly. At the time that we are faced with, what I regard, as a worsening refugee problem around the world, we are also faced with a situation, realistically, and the donor governments who support this are faced with, really hard budget crises.

This year within the executive branch, we went through as exhaustive a review as I can remember. I have been doing this budget stuff for 25 years now. The budget we are presenting today reflects the result of that review.

Clearly, as with any organization in town, I didn't get everything I wanted. I believe that the budget that we are presenting, however, will allow us to maintain the U.S. leadership role in this program.

It is based on some assumptions. I want to be honest with you right up front. There are assumptions that some of the situations that we are involved with are susceptible to improving, not totally within our control. It is based on an assumption that international organizations can do more for less. That may well be true.

It is based on an assumption that other governments are going to ante up more money. We are going to keep putting an arm on them. Whether or not we will be successful is yet to be determined. These are not necessarily bad.

I think that the U.S. role has been paramount. It has been a leadership role. I believe it is important that the rest of the civilized world join with us in this regard.

I have, Mr. Chairman, testified at numerous committees over the past few weeks——

Senator HATFIELD. Could I interrupt? Senator Chiles is calling me.

[A brief recess was taken.]

Senator HATFIELD. I apologize.

BUDGET CATEGORIES

Mr. PURCELL. Senator, I will summarize. We have requested $337.7 million for 1986. Our budget is basically in four categories. The first category is refugee admissions to the United States. We are asking for $130 million. That is based on 68,000 admissions to the United States this fiscal year, a reduction of 2,000 below 1985.

Our second category is refugee assistance overseas. We are asking for $180.2 million. That is a reduction of $12 million from the previous year.

Our third category is nonregional assistance overseas. That is $19.5 million, $2.5 million less than the previous year. Within that amount, we have included $12.5 million for the United Israel Appeal for the resettlement of Jews in Israel.

ADMINISTRATIVE BUDGET

Our last category is our administrative budget for which we are requesting $7.9 million, a reduction of $300,000 from the previous year. Within that, I am asking for three new positions to augment essential areas of our bureau.

PREPARED STATEMENT

I think I will stop there, Mr. Chairman, so we can preserve time for your questions. I will submit my prepared statement for inclusion in the record.

Senator HATFIELD. It will be placed in the record at this point.

[The statement follows:]

PREPARED STATEMENT OF JAMES N. PURCELL, JR
DIRECTOR, BUREAU FOR REFUGEE PROGRAMS
DEPARTMENT OF STATE

Mr. Chairman and Members of the Committee:

It is a pleasure to appear before you today to present the Department of State's Migration and Refugee Assistance appropriation request for FY 1986. Accompanying me are Robert L. Funseth, Senior Deputy Assistant Secretary of the Bureau, and Rozanne Oliver, Director of the Office of Program Budget.

Mr. Chairman, strife and persecution continue to create refugee crises of substantial proportions on virtually every continent. We estimate that over 8 million refugees in the world today are outside their country because of these unfortunate circumstances. Frequently, the precarious situations of these victims of unrest are exacerbated by other factors, including natural disaster. Every person here is aware of the most dramatic example--the current tragic famine in Africa, which has affected not only those in their own homelands but has resulted in the flight of hundreds of thousands across national boundaries in search of relief.

Most refugees find asylum in neighboring developing countries that cannot adequately provide for their needs. Many of these host countries are of interest to the United States for strategic and other foreign policy reasons, and need to be supported in their efforts to assist these persons. The United States must also continue to respond to needs to resettle refugees in this country when voluntary repatriation or settlement in the region of first asylum on a long-term or permanent basis are not possible.

To address these humanitarian and foreign policy concerns, the Department is requesting a Migration and Refugee Assistance appropriation of $337,680,000 in FY 1986, an increase of $12 million over the FY 1985 funding level.

The Migration and Refugee Assistance request does not include funds for the emergency response to the present famine in Africa. These emergency programs funded by the Refugee Program have largely been funded to date from the Emergency Refugee and Migration Assistance Fund, which is a separate appropriation to fund urgent and unexpected needs which are not anticipated in a regular budget request. The Committee may recall that the President has authorized a drawdown of the Fund twice in the past year for Africa, the most recent of which was $25 million in January of this year.

As I recently testified before the House Appropriations Subcommittee on Foreign Operations, it is essential that this Emergency Fund be replenished to the level of $33 million by enactment of our 1985 supplemental request of $25 million. This fund is a critical backstop to our programs of humanitarian relief.

The amounts requested for Refugee Programs fall in four categories of expenditure: refugee admissions to the United States, refugee assistance overseas, other assistance activities, and admininistrative expenses.

The refugee admissions program, with a request of $130.1 million, comprises almost 40 percent of our request. These funds cover activities necessary to admit a projected 68,000 refugees to the United States in 1986. The refugee admissions level is consistent with two major developments during the past year. First, the President launched an initiative last fall to expand the Orderly Departure Program (ODP) from Vietnam to increase the number of Amerasian children and political prisoners and their family members allowed to depart Vietnam. This request is sufficient to cover the projected increased number of Amerasians. At such time that the Socialist Republic of Vietnam agrees to a program for political prisoners, more numbers may be needed. Second, the admission of former Cuban political prisoners and their families to the United States as refugees is now beginning as a consequence of the agreement reached with the Government of Cuba in December. This request allows continuation of that program in FY 1986.

The activities carried out under the admissions program include voluntary agency processing activities overseas, processing and transportation by the Intergovernmental Committee for Migration, English language and cultural orientation training overseas, and initial reception and placement activities provided by the resettlement voluntary agencies. Of the $26.9 million increase over the 1985 level, $19.4 million is attributable to the expansion of the reception and placement program to cover financial responsibility for all basic necessities for the refugees' first ninety days after admission to the United States in order to discourage welfare dependency. This initiative is similar to that proposed in the Refugee Assistance Extension Act passed by the House last year.

Refugee assistance programs overseas total $180.2 million and account for about 53 percent of our request. This budget provides approximately the current level of support to meet estimated core programs costs of the international organizations and other agencies that carry out international relief and resettlement programs overseas.

While the Department's first priority remains the preservation of life through providing for refugees' basic needs, these funds also will support, when possible and appropriate, programs that offer more lasting resolutions to refugee situations through voluntary repatriation and settlement in the region of asylum.

The requested $26.5 million for assistance to Indochinese refugees in Southeast Asia primarily supports the efforts of the United Nations High Commissioner for Refugees (UNHCR), the United Nations Border Relief Organization (UNBRO), the International Committee of the Red Cross (ICRC), and other agencies to address the needs of refugees in first asylum and of the 250,000 Cambodian refugees who remain in a precarious position on the Thai-Cambodian border. In addition, this program covers contributions of $800,000 towards the UNHCR-administered ODP program and $1 million for programs combatting pirate attacks on boat refugees in the Gulf of Thailand.

African refugee assistance of $51 million in FY 1986 will support core programs of the UNHCR and the ICRC for refugee relief and provide funding for refugee scholarships and other special relief needs.

The Near East and South Asia assistance programs request is $87 million. The request includes $67 million - the same as the FY 1985 estimate - for the support of Palestine refugees through the vital work of the United Nations Relief and Works Agency for Palestine Refugees. We also intend to continue funding the UNHCR, the ICRC, and voluntary agencies for the approximately 2.5 million Afghan refugees in Pakistan at $20 million.

In response to the continued high level of refugee needs in Latin America, we propose to fund programs assisting those refugees at $15.7 million, roughly the FY 1985 level. Most of this amount will support UNHCR programs, while the rest will be contributed to the ICRC and voluntary agencies.

Our request includes $19.5 million for other assistance activities - non-regional assistance needs. Of this amount, the program of assistance to refugees settling in Israel is requested at $12.5 million. We believe this amount will cover adequately the resettlement costs of refugees from the Soviet Union, Eastern Europe, and other areas of the world. Also included is a request for $7 million for international organization contributions including the U.S. contribution of $2 million to the administrative budget of the ICRC. The Intergovernmental Committee for Migration is funded at $3 million for its assessed administrative budget, and $2 million for the voluntary contribution to ongoing migration programs.

Finally, we request $7.9 million for administrative expenses, a decrease of $270,000 from 1985. Within this amount, we plan to fund three new positions to strengthen Bureau administration of the English language and cultural orientation program, the reception and placement program, and the assistance program in Central America. The decrease is because of the proposed pay reductions and other administrative savings.

In closing, Mr. Chairman, I would note with appreciation the ongoing concern for and dedication to the problems of refugees by the members of this committee. I look forward to our working together to continue to insure a sound U.S. refugee policy.

KHMER REFUGEES

Senator HATFIELD. Thank you, Mr. Purcell. Mr. Purcell, let me ask you basically something outside, but of course, related to the budget. What is the plan or strategy, or whatever you want to call it, that you have in mind on how we are going to deal with these additional Khmer refugees that have occurred here?

Mr. PURCELL. As you know, Senator, the entire population has now been moved off the border. They have been temporarily moved to sites within Thailand itself. Their needs are being cared for presently by UNBRO, the U.N. Border Relief Organization, to which the United States is the major contributor.

Our object is to continue to support the Khmer with safe asylum within Thailand. I have spoken, on my recent trip, to most of the Thai leaders, the international organization and most of the other governments. The view is that we attempt to keep them in asylum temporarily until time has allowed a determination as to what the Vietnamese intentions are.

I have, I believe, agreements from key Thai officials that there will be no more forced relocations back to a hostile border environment, that refugees will be allowed temporary safe asylum within Thailand for as long as that is necessary.

I have been quite forceful with the Thais in regard to any involuntary return to the border. We certainly would not support such a move. I have also indicated to the UNBRO officials that the United States will certainly keep up or increase its share of the UNBRO budget as is necessary, and that if additional needs are required, they are to let us know as quickly as possible. But we certainly——

SUPPLEMENTAL FUNDING FOR KHMER RELIEF

Senator HATFIELD. So you wouldn't hesitate to come in with a supplemental request, if we have underestimated this situation? Let's say we have underestimated. In other words, we couldn't anticipate the particular actions taken by the Vietnamese. Yet, here they are, 250,000.

Our budget certainly isn't going to be able to take care of that additional responsibility, is it?

Mr. PURCELL. Our budget will—UNBRO's budget is currently $140 million. That is for the care and maintenance of the population in asylum in Thailand. The budget is sufficient for that.

If, in fact, there is a requirement for camp reconstruction or other needs beyond simple maintenance, we are not funded for that.

Senator HATFIELD. Those camps were obliterated?

Mr. PURCELL. Obliterated.

Senator HATFIELD. They are going to have to be rebuilt.

Mr. PURCELL. The estimate for that is in the range of $5 to $7 million. It has not been included in the UNBRO budget that has been submitted. We had certainly indicated our receptiveness if the need materializes.

Senator HATFIELD. Who is going to take the leadership on that?

Mr. PURCELL. I would look to the UNBRO leadership, including the secretary general, to take the lead in determining whether or not it will eventually be safe for a relocation back to the border.

RECONSTRUCTION PROGRAMS

Senator HATFIELD. In the matter of reconstruction, that has not been followed with a request.

Mr. PURCELL. That's right.

Senator HATFIELD. Why, I wonder, have they not made a request?

Mr. PURCELL. Well, I think the truth of the matter is that they need time to see what the Vietnamese intentions are. As you know, the Vietnamese are camped out along the border. Right now, as time passes, they have to determine whether the Vietnamese are going to stay; that precludes the option of border return.

RELOCATION OF KHMER CAMPS

Senator HATFIELD. Where are these people at the moment, these 250,000?

Mr. PURCELL. The Thai have operated a number of relocation camps about 10 kilometers from the border. They are a short distance from the border, but they are clearly within Thailand.

Senator HATFIELD. Well, do these camps provide for shelter and food and some degree of sanitation?

Mr. PURCELL. The camps—you know there have been a number of camps in Thailand over the years, many of which have been shut down——

Senator HATFIELD. Right.

Mr. PURCELL. Because of consolidation efforts. UNBRO has within its current resources sufficient amounts to fix up the camps so that they are habitable. We have had our people in Thailand inspect them. They are inhabitable but only short-term. If they are there for any length of time, there would certainly have to be additional construction.

Senator HATFIELD. Until the sewers fill up to a certain level, I suppose.

Mr. PURCELL. I might add that I have made a personal appeal to Dr. Kunugi to be forthcoming on the budget, that the United States will carry out the same role it has had in the past. His responsibility, as the secretary general's personal representative, is to be responsible for that group. I have tried to be as forthcoming as the United States can possibly be.

Senator HATFIELD. Mr. Purcell, I would like to encourage you to do that. It seems to me that waiting for the Vietnamese to determine a policy is not really a sound basis on which to make a judgment for human needs. Some 280,000 people are already situated.

ADMISSIONS NUMBERS

Tell me, how many refugees will be processed through fiscal year 1985, the current fiscal year?

Mr. PURCELL. Well, as you know, we consulted with the Congress on admission levels for 1985 in Southwest Asia. This year——

Senator HATFIELD. You were appropriated for that.

Mr. PURCELL. We were appropriated for that amount. Of that amount, 40,000 will be offtake from first asylum countries; 10,000 will be ODP. We had to keep those two separate so that hoped for growth in ODP would not cut into first asylum offtake.

CARRYOVERS FROM FISCAL 1984

Senator HATFIELD. How many of them are a carryover from fiscal year 1984?

Mr. PURCELL. Well, we had about 25,000 carryover from 1984. We have a similar carryover going into 1986. We see that being in the range of 20 to 25,000.

Senator HATFIELD. So then you have for fiscal year 1986, I believe, a figure of 48,000.

Mr. PURCELL. That is 36 first asylum and 12 ODP. That's correct.

Senator HATFIELD. This is where we get into a little difficulty—I get into a little difficulty. Actually then, if I hear you, fiscal year 1985 was budgeted to process 50,000. But you actually only approved and processed 25,000, because you had the carryover from fiscal year 1984.

Mr. PURCELL. We will approve—INS will approve asylum for 40,000 people in 1985, about 20,000 of those may well be in the RPCs by the end of the year. The carryover tends to wash.

We had a carryover going into 1985. We will have a carryover going into 1986. Actual processing is in the range of 40,000 in 1985 from first asylum.

RESETTLEMENT IN UNITED STATES

Senator HATFIELD. That is processed and approved for resettlement?

Mr. PURCELL. For resettlement in the United States.

Senator HATFIELD. Yes; you say that fiscal year 1985 figure will be 40,000 plus the 10,000 in the ODP?

Mr. PURCELL. The 10,000 in ODP, Senator, is a figure of actual arrivals in the United States. Because we have a processing pipeline, it is my estimate that anywhere from 15 to 18,000 people will be processed, leave Vietnam, going into RPC's. Up to 10,000 of them will enter the United States. The remainder will be undertaking English language training in the RPC's.

Senator HATFIELD. OK. Now, let me take this from the other way. Let's prove the subtraction by adding the last two figures. What was your carryover from fiscal year 1984?

Mr. PURCELL. Our carryover at the end of 1984 was 22.9.

Senator HATFIELD. 22.9?

Mr. PURCELL. Yes, sir.

Senator HATFIELD. All right. We are actually processing what approval for resettlement in 1985 will be. You say, 40,000?

Mr. PURCELL. Approximately 40,000.

Senator HATFIELD. And so then, in other words, by the time you finished 1985, if I added those two figures together, you would have 62.9 or 63,000 ready for resettlement?

Mr. PURCELL. Approximately, sir.

Senator HATFIELD. By taking the 22.9 carryover from 1984, the actual number that you have approved and processed for 1985, so those are the two figures that I have added.

Mr. PURCELL. That's right. And of that 60—approximately 63, you will see about 40,000 of them work their way through the system, enter the United States. The remainder will be in processing at the end of the next fiscal year.

Senator HATFIELD. Now, what is this group that you call the remainder from this 62.9? If you have actually completed approval and processing of 40,000 in 1985 and you have a carryover from 1984 of 22.9, those two figures add up to 62.9. Why aren't 62.9 ready for entry into the United States?

REFUGEE PROCESSING CENTERS

Mr. PURCELL. Because many of those 40,000 will be approved April through September. If you are approved in the last 6 months of the year and you then enter into an RPC, it is unlikely that you will enter the United States until the following year.

We do now require every eligible refugee to go through 6 months of English language training and a cultural orientation program at the RPC's.

Senator HATFIELD. That is not part of your general approval processing.

Mr. PURCELL. Well, we consider preparation for entry into the United States at the RPC's as part of processing, the preparation for movement to the United States.

Senator HATFIELD. So then really, you can't say that 62.9 are ready for entry because they really haven't finished processing.

Mr. PURCELL. In that connection, you can say they have been approved by INS for eventual entry into the United States either in that fiscal year or the subsequent year, depending on when they complete their training.

Senator HATFIELD. We are talking about the 48,000 level that you are asking for funding for 1986 and the 50,000 we have in 1985. Is the program, the 6-month program of language and all the preparation, part of that level of processing?

Mr. PURCELL. Absolutely, sir. We take it all into account.

Senator HATFIELD. Mr. Purcell, those figures don't add up to those levels for which we are appropriating the money.

Mr. PURCELL. We will bring into the United States in fiscal year 1985—there will be 50,000 people entering the United States. We have attempted to make it crystal clear in the budget. 50,000 relates to actual arrivals in the United States.

Senator HATFIELD. But you were budgeted for 50,000 in fiscal year 1985 and 22.9 of those were fiscal year 1984 carryovers. So you didn't actually process and approve and have ready for entry, the 50,000 which we appropriated for fiscal year 1985.

Mr. PURCELL. Senator, it would have been virtually impossible, other than to ignore the needs to better prepare refugees to come into the United States, to bring them all into the United States this year.

Senator HATFIELD. I am not asking you to do that. I am trying to deal here with the levels for which you are asking us to appropriate dollars. All I am saying is, when you ask for fiscal year 1985 levels for 50,000, fiscal year 1986 of 48,000, I haven't seen in fiscal year 1985, nor did I see in fiscal year 1984, nor did I see in fiscal year 1983, an actual processing of the numbers equivalent to the appropriated level.

REFUGEE "PIPELINE"

Mr. PURCELL. Sir, if by processing, we are referring to case preparation, INS adjudication, approvals, we will review more than 50,000 of those. What we have got is a pipeline. The analogy that has been used—we try to explain it—it is as though you have a university.

Senator HATFIELD. Yes.

Mr. PURCELL. You count the number of graduates of that university in a particular year. Say you have a thousand graduates. Actually, you can have 5,000 people in the pipeline getting ready to graduate. But our 50,000—and I think it is clear in the budget—are people who have completed all phases of processing and will ultimately set their foot down on American soil. We will have 50,000 of those people do that in 1985 and we will have 48,000 of them in 1986.

Senator HATFIELD. We are obviously not communicating. It is probably my fault. It seems to me—I understand the pipeline. It is like a military pipeline. We have $250 million in the Pentagon's pipeline that we have already appropriated. That will come due as the outlays occur.

But in this situation, when we are looking at an authorized level in effect, an appropriated amount to meet that authorized level for 50,000 for fiscal year 1985, we really did not process that number in fiscal year 1985 to the completion of all the components of the processing system, ready for entry.

Mr. PURCELL. That's right.

Senator HATFIELD. Because we had a 24,000 figure carryover from fiscal year 1984.

Mr. PURCELL. That's right.

Senator HATFIELD. Yet we appropriated for you to do the work of 50,000 in fiscal year 1985. We didn't have it.

Mr. PURCELL. Well, you will find, sir——

Senator HATFIELD. It didn't happen in 1982. It didn't happen in 1984. Why should we appropriate for 48,000 in fiscal year 1986, if you haven't met that target in any single year?

Mr. PURCELL. Well, you see that part of what we request is for the actual arrival. We also request funding for the English language training. The money that we have asked for is actually being spent in that year. We will have upward of 20,000 a month undergoing ESL in our various RPC's. We have requested funding for that. We have attempted to explain that in the budget.

FALLBACK POSITION

Senator HATFIELD. Let me then ask you for a fallback position.

Mr. PURCELL. OK.

Senator HATFIELD. Let me grant all this to you from your perspective. Let me see if I can understand it another way. If we have a carryover from fiscal year 1985 to fiscal year 1986 of some 24,000, does that mean you are going to actually process, in every detail up to the point of entry 36,000 in 1986?

Mr. PURCELL. We will process approximately 36,000 in 1985. OK.

Senator HATFIELD. That is my fallback position. I am bothered by one other question and I will end this, unless the Senator from Pennsylvania has some questions on this issue.

KHMER PROCESSING

Again, I want to thank you for that effort you made to work out the request of the Thai government for the screening of the newly arrived Laotians. Are we within this 250,000 new Khmer, separating the Khmer Rouge from the non-Khmer Rouge refugees?

Mr. PURCELL. In the camps you mean?

Senator HATFIELD. Yes.

Mr. PURCELL. We are attempting to do that. I am not sure we have been totally successful. But the effort is to try to segregate them to the degree that we can.

SCREENING OF LAOTIANS

Senator HATFIELD. What is the plan—I might ask in terms of the timing on implementation of the details—what is happening for the newly arrived Laotians while we await the so-called screening guidelines?

Mr. PURCELL. Senator, in 1982, as you recall, the Thai government was concerned about the influx of lowland people, particularly. They instituted what is called "humane deterrence," which means that they put all incoming arrivals into a camp and they close it. They did not allow western governments access to them for resettlement.

In 1983, I had an occasion to speak with Thai officials and told them there were some very high priority refugees in there of interest to the United States and asked for limited processing. The Thai agreed to that. We commenced processing in 1983.

We have seen, in 1984, our new arrivals of lowland Lao were 19,500. That is twice the previous 2 years combined. There is a certain fear that by opening up the processing system, we generated the impetus for this increased flow. The Lao—the Thai decided that they had to deal with this.

As you know, they, for awhile, stopped any new arrival into Thailand. On my last trip, I had a number of talks with the national security folks there and the Minister of Interior and explained to them the importance that we put on the screening procedure.

As you know, the Thai have now issued a policy statement. I believe they have incorporated within that all of the safeguards that we have requested. They are presently starting this month with the training program for 300 Ministry of Interior personnel, in terms of how to conduct the screening operation. The program will then commence at the completion of that program.

Presently, any new arrivals that arrive in Thailand are going into Napho. We have made it very clear that we, as a government, cannot tolerate a total push back, which may well have been occurring. There were certainly, as you know, reports of that.

I have told the Thai, as with any government, I believe that they have the right and the responsibility to control their borders. But in controlling them, it is critical that those who have valid claims for asylum be screened in and the others be segregated, and we are looking to the UNHCR, to arrange a safe return for those who are screened out.

When the screening program is in place, those with potential refugee claims will go into the existing refugee camps and will be available for third-country resettlement. As for those who are screened out, we will look to the UNHCR to try to arrange an orderly return program for them. But at present, any of those allowed into Thailand are going into the existing camps.

Senator HATFIELD. Thank you, Mr. Purcell. I will follow-up with other questions which I will submit in writing.

Mr. Specter, I would like to give the gavel to you at this time. If you would finish the hearing, I would appreciate it.

Senator SPECTER [presiding]. I will accept the gavel. I will stay as long as I can.

GUATEMALAN ASYLUM PETITIONS

I have a question too, Mr. Purcell. I had written to Secretary of State Shultz on February 1, concerning the State Department policy on Guatemalan refugees arising out of a case which I saw in Philadelphia, where a Guatemalan, aged 25, had been taken into custody with his wife and 3-year-old child.

He had a contention that he was a refugee that would have been subjected to torture if he had been returned to Guatemala. I personally observed, on his right wrist, scars which were corroboration of the contention that he had been subjected to torture there.

I wrote to Secretary Shultz raising that question about a number of practices in the Immigration and Naturalization Service, and I also raised a question about the State Department's procedures on granting asylum. I know that only four-tenths of 1 percent of Guatamala applicants for asylum are granted in 1984 and only 2½ percent of applications for asylum from El Salvador were been granted in 1984.

I got an extended reply in which he took up the specifics of the case of the individual that said they couldn't answer. It did not deal with the State Department policy on granting asylum.

The question that I had was what are the standards? Is it realistic to have a policy that results in only less than one-half percent of applications for asylum coming from a country like Guatamala are granted?

POLITICAL ASYLUM

Mr. PURCELL. Senator Specter, within the State Department's responsibility for political asylum requests is with the Bureau of Human Rights. I have with me today, Assistant Secretary Abrams. If you would permit, I would ask him to respond to that.

Senator SPECTER. Yes; that would be fine.

Mr. ABRAMS. Part of our problem is that we can't approve applications that we do not get. The Guatemalan case, as I recall the details—I hope I recall them correctly—was a case of somebody who claimed to have a right to asylum yet never applied for asylum.

This is a problem that we run into with the so-called "sanctuary movement" which encourages people not to apply for asylum. Many of the people who may well be entitled to it, don't apply. We never hear about them. Others do apply with very poorly done applications. All we have to go by is the application.

Senator SPECTER. Mr. Abrams, I can understand that you didn't have the application for this one person. But there is a feeling among Guatemalans that it is hopeless to apply. If you can only respond to the ones that do apply and less than one-half of 1 percent have asylum granted, it may be that 99.6 percent don't deserve it. But that is a little hard to believe, really.

Mr. ABRAMS. Senator, politically, it would be much more sensible for us, for me, for example, simply to instruct the asylum officers in the Bureau to meet quotas. You know we get a little criticism, "Why don't you just approve 25 percent of the Guatemalans and 35 percent of the Salvadorans?"

We don't do that. We don't do it because the applications that we do, in fact, get, do not provide the basis for approval. I don't think—it is not so surprising in this sense——

APPROVAL REQUIREMENTS

Senator SPECTER. What is the basis for approval?

Mr. ABRAMS. Well——

Senator SPECTER. Here we have a man in Philadelphia. Immigration and Naturalization Service has issued an arrest warrant. They have issued summons for a lot of people. They have issued summons for American citizens who bring in the wife and child and then bring in the man who is looking for his family. Bail is set at about $1,500 for each of them. Bail is posted by somebody else.

The people themselves really have no interest in whether the bail is forfeited. Nobody has made an inquiry of this man as to whether he has a valid claim for asylum.

It seems to me the fundamental requisite for fair procedure. Here he is arrested. He is terrified in the United States. His lawyer says that they don't make applications for asylum. He has a lawyer. Is it your representation that it is an inappropriate application? Is this a fair procedure which results in denial of 99.6 percent of all the applications for asylum from Guatemala?

Mr. ABRAMS. It is my statement that the asylum procedure is—which we are using in the State Department—absolutely fair. It is impossible to make a judgment on whether they are true or not because that depends on each application that is received. People come in all the time.

We ask people to come in, take 50 applications off the shelf, read them. The U.N. High Commissioner of Refugees represented in Washington and New York come in all the time. They look at cases, for example, issue cases. I think that they generally share our view that in fact the percentage that can be approved is extremely low. It isn't surprising.

APPROVAL RATE

Senator, our worldwide approval rate is about 20 percent. It is quite similar to that of the British or French or other major, rich countries, free countries in the West. It is logical that it would be lower when you are dealing with applications from countries which have a history of applying illegal economic migration into the United States.

It stands to reason that in the mix of such a country, there will be a greater portion of applications that would, in fact, not be—not rise to the standards which international law and American law require.

REVIEW OF ASYLUM CASES

Senator SPECTER. Mr. Abrams, how can we fashion a system where this subcommittee can exercise influence? I applaud the work you have done. It has been fine work.

You will have to forgive the skepticism on my part for the 99.6 percent statistic being indicative of a fair rate. It may be. It may be. I would like to take a look at 100 applications, selected at random. Could we structure such a review?

GAO REPORT

Mr. ABRAMS. Sure. One of the parts of the legislation that is out here calls for a GAO report. Speaking for myself, personally, that would be a good idea.

Senator SPECTER. Does the GAO do that now?

Mr. ABRAMS. I don't see any reason why we won't be able to.

Senator SPECTER. I will make the request through the GAO.

Mr. ABRAMS. Personally, I think that would be a good idea.

Senator SPECTER. On Guatemala and El Salvador in the context of the case that I saw, do you think that would be appropriate?

Mr. ABRAMS. Absolutely.

Senator SPECTER. If I am not satisfied with the GAO, then I will do it myself.

Mr. ABRAMS. OK. I was going to say that the other possibility is to have people from the subcommittee, or your own personal staff, come in and just take, literally, take cases off the shelf and take a look. There would be some whiting out of names.

Senator SPECTER. I was thinking of having staff do it instead of doing it myself.

Mr. ABRAMS. You are welcome, too.

REFUGEES TO ISRAEL

Senator SPECTER. Let me ask one other question and then I will yield to Senator Leahy and Senator DeConcini. I note that on the appropriation applications for resettlement of refugees that the sum for Israel has been reduced from $15 million to $12.5 million.

I note at the same time that last year Israel absorbed approximately 11,400 refugees from the Soviet Union, Eastern Europe, Africa, and Asia, which was more than double than was absorbed in 1982 when Israel took 5,400 refugees.

In light of the tremendous influx of Ethiopian Jews, wouldn't it be more realistic to increase the allocation here as opposed to decreasing it?

Mr. PURCELL. Senator, you are correct that the total immigration into Israel between 1983 and 1984 increased by about 5,000. The refugee component of that makes up the total gross that is applicable. It is an increase of about 6,000.

Over the years since 1973, we have provided grants to the United Israel Appeal to facilitate the absorption of refugees in Israel. We have never attempted to tie our support on a per capita basis. The Jewish agencies to Israel will spend far greater than that.

In looking at the requirement this year, as I mentioned in my opening statement, we are requesting $337 million, which to us is an extraordinarily tight budget.

I have to look at needs all around the world. We are looking in the Sudan at an increase of perhaps 1 million refugees. We are seeing surges in many parts of the world. It is our judgment that we also have to look, in each case, not only at the requirements, but what are the possibilities of alternative sources of financing programs. We felt that in this particular case, the $12.5 million within a $337 million budget was the proper amount.

LEVEL OF U.S. SPENDING

Senator SPECTER. The Israeli Government and the Jewish Agency for the Absorption for Ethiopian Refugees will spend more than $300 million over the next 18 months. Are you suggesting that if they spend less, you will spend more?

Mr. PURCELL. No, sir; I say that there is no automatic link between the amount they spend and the level of the United States.

Senator SPECTER. You said there is no link between the amount of the U.S. contribution and the amount of refugees?

Mr. PURCELL. Right.

Senator SPECTER. And then you said that if there are other sources of funding available, the U.S. contribution would be less.

Mr. PURCELL. In each case, what I was saying is that in programs like in Africa and the Middle East where I have had to make very hard decisions, there are no alternative sources of financing.

Senator SPECTER. That is why I was asking if the Israeli Government and the Jewish Agency for the Absorption of Refugees spent less, we would spend more.

Mr. PURCELL. I wouldn't necessarily put it quite that way. I think, realistically, you have to look at what private and other government sources are able to raise to contribute toward such programs. There are alternative sources there.

Senator SPECTER. I would think that that would be relevant but I would think that that rather discourages the private initiative, if you appear and testify that where there are alternatives there is going to be less, in a context where, with such enormous increases in refugees, that the share has dropped.

I don't want to go through all the statistics with you. That would be a very laborious process. But given these very important factors, the enormous increases of refugees, the very substantial private contribution and the third factor, to have your request go down, seems to me inappropriate.

Mr. PURCELL. I won't discount the fact that the number of immigrations for Israel has risen by 6,000. As far as the programs that I am looking at, that is by and large the smallest increase in any of the crisis areas that we are dealing with.

I have had to make some very hard decisions where we put our money. I am putting them in programs that are basically life preserving. Simply, this is a hard choice. We could be wrong on it but within the level of resources that I was permitted to request from the Congress this year, I feel this is an appropriate level.

Senator DECONCINI. Would the chairman yield for a followup question?

Senator SPECTER. I will yield for that and I will yield generally.

OTHER ASSISTANCE TO ISRAEL

Senator **DeConcini**. Did you have discussions with the other members of the State Department, because we have yet to receive a request for assistance for Israel, but we anticipate it being an increase of over $1 billion for 1986.

It would seem to me that that should be part of your budgetary process. If we are asked to give more in military and economic assistance to help Israel, part of their budget problems may be that they have to respond more, which they do. It takes more than an average of 11 months to assimilate an Ethiopian refugee into their society versus five or six for other refugees. Has it been taken into consideration that that is a good place to assist them? Maybe we wouldn't have to be called on in other places to give so much assistance to the state of Israel?

Mr. **Purcell**. Senator, I, obviously, have no role to play in the level of other assistance programs to Israel. I am generally familiar and do tend to participate in such sessions but I am basically responsible for the refugee component of it.

I am knowledgeable of the overall requirements, but we went through the process this year for 3 months, ending up with the request that I am presenting to you today.

Senator **DeConcini**. "That is the best I can get," is what you are saying?

Mr. **Purcell**. That is the best I can do out of that sized budget. I don't argue the very important and incredibly competent work that is going on in Israel in the absorption process but I am saying, as in any budget that we have to face, you have to make hard choices. Given the needs around the world, we made the right choice.

Senator **DeConcini**. Thank you, Mr. Chairman.

Senator **Specter**. Senator Leahy.

Senator **Leahy**. No questions, Mr. Chairman.

Senator **Specter**. Senator DeConcini.

RETURN OF SALVADORANS

Senator **DeConcini**. Let me pursue another area. The Department of State has contracted with the International Committee on Immigration to provide refugee displaced persons service in El Salvador. In addition to providing an airport reception service, ICM has opened a camp in Honduras to facilitate the return of Salvadorans not wishing to obtain refugee protection or remain in Honduras.

Have any State Department funds been used in the ICM project in Honduras?

Mr. **Purcell**. Yes, sir; there are two projects, as I mentioned.

Senator **DeConcini**. I am sorry, was that in your statement?

Mr. **Purcell**. No; I will elaborate on it presently.

Senator **DeConcini**. Thank you.

Mr. **Purcell**. In late 1984, ICM was invited by the Government of Honduras to assist in a program to assist transit of Salvadorans to safe passage through Honduras back into safe areas in Salvador. These Salvadorans were not seeking refugee status in Honduras but were passing through to areas free of civil strife.

At that time the Salvadorans first began transiting Honduras, UNHCR was not asked to provide assistance because they were not considered to be refugees. I provided an amount, $200,000 in 1984 to ICM for this purpose.

At the time of this contribution it was certainly my hope that this facility would later serve as a repatriation facility for any Salvadorans wishing to return. There have been, over the past year, 2,257 Salvadorans who have returned, who voluntarily repatriated.

Second——

Senator DECONCINI. Excuse me. That is 250,000.

Mr. PURCELL. 2,257 Salvadorans.

Senator DECONCINI. 2,257 have voluntarily returned?

Mr. PURCELL. Have voluntarily repatriated from Honduras. Second——

Senator DECONCINI. Thank you.

RECEPTION AND COUNSELING FACILITY

Mr. PURCELL. Intergovernmental Committee on Migration [ICM] was requested by the Government of El Salvador to establish a reception and counseling facility for Salvadorans returning from abroad. That includes coming from any country. They have one office in the airport at San Salvador and one other downtown.

It is open to all Salvadorans. It is designed primarily for those returning from abroad. It attempts to give them temporary shelter and transportation for counseling. It also is intended to make available to returning Salvadorans information about assistance, perhaps that which is offered by the Government of El Salvador.

At the request of the United States and the Salvadoran Government, at this facility, ICM is also interviewing returnees from the United States. This is an effort to try to provide an information base for what, in fact, is the status of those that are returned under the deportation process in the United States.

Thus far, ICM, in this latter category, has interviewed and established records on 461 persons who have been returned from the United States. This is an effort——

Senator DECONCINI. Those people are back in El Salvador?

Mr. PURCELL. Back in El Salvador. This was an effort by both, primarily initiated by the Government of El Salvador in the latter case, in interviewing and trying to maintain appropriate information on what happens to deportees is certainly in the U.S. interest as well.

Senator DECONCINI. How much money is here in the 1986 budget?

Mr. PURCELL. There is no funding.

Senator DECONCINI. For anything under that?

Mr. PURCELL. We did provide funding in 1984 within our Latin American assistance account.

Senator DeConcini. So the total amount of Salvadorans who have taken part in this since 1984 are roughly 2,700, 2,257, and another 400?

Mr. Purcell. Many of the 2,257 were repatriated before these facilities came on board.

Senator DeConcini. Since these facilities came on board, roughly 400 you said?

Mr. Purcell. 461 returning from the United States.

Senator DeConcini. How many others?

Mr. Purcell. The facilities are relatively new. We don't have precise estimates of the numbers that have availed themselves of these facilities, but I will find that out.

Senator DeConcini. How do they get to Honduras when they are deported from here?

Mr. Purcell. The facilities, the ICM facilities, are in El Salvador.

Senator DeConcini. Oh, they are in El Salvador. They are not in Honduras.

Mr. Purcell. No, no; they are in El Salvador.

Senator DeConcini. What about the ones that are in Honduras?

Mr. Purcell. They generally have left conflict areas on their own in El Salvador.

Senator DeConcini. We are not involved with that?

Mr. Purcell. They are attempting to transit through Honduras in order to relocate in safe areas in El Salvador.

Senator DeConcini. Is there any reason other than monetary that we don't participate in those facilities other than in 1984?

Mr. Purcell. We did actually sponsor them in 1984. I did it on a trial basis to see if they work. If they do seem to be contributing, we would certainly consider them——

Senator DeConcini. You haven't concluded one way or the other?

Mr. Purcell. We have not concluded but we are working with ICM to get information as to whether these facilities are worthy of additional funding.

ASYLUM FROM CENTRAL AMERICA

Senator DeConcini. Mr. Abrams, can I ask you about a little followup on what the Senator from Pennsylvania talked about?

There is such a small number of asylums granted for Latin Americans and Central Americans. Did I understand you to say that about 20 percent of all applications are granted asylum throughout the world, all applications here?

Mr. Abrams. Yes.

Senator DeConcini. Why is it so low for Central and South America?

Mr. Abrams. I think it is lower for those areas because they are regions in which we are also getting and have traditionally gotten a substantial flow of economic migrants. With respect to our country, there is a mix of refugees and economic migrants. These are countries which recently have been giving us a lot of economic migrants, Central America and Caribbean countries.

In the case of some which are democratic, we recognize that the refugee flow is an economic flow. In the case of El Salvador, there is a mix. In the cases that we see—again, I can't talk about the overall flow, but only the applications that come to us—there are very few that actually go beyond saying that, "The conditions at home are bad and let us stay here."

Senator DeConcini. Does the case have to have the merit on the application for you to conclude that asylum should or should not be granted?

Mr. Abrams. The way it works is the initial interview is done by the Immigration Service. They send us that form. Sometimes it is with comments, sometimes without them, from the Immigration Service, and we make our own recommendations.

There are some elements that we can't get into. For example, the credibility of the applicant just sitting in front of the examiner. But I think, if I understand the question, the answer would have to be, "Yes." That is, that nobody has a right to stay here unless he or she can demonstrate that they are, in fact, refugees. It is up to the refugee to demonstrate the right to that status. It is not up to us.

Senator DeConcini. If they tell you that they are fearful for their lives or give you a scenario that, from their perspective, they will be damaged or injured if they return, that, in and of itself, is not sufficient, is that correct?

Mr. Abrams. That's correct, Senator, because every refugee or would-be refugee can make that claim. There has to be something more than a flat claim.

SUBSTANTIATION OF ASYLUM CLAIMS

Senator DeConcini. How do you substantiate that in El Salvador? How do you substantiate that, if he returns to the village that, in fact, you know from history has been occupied by the guerrillas over the past couple of years, he would be safe to return there?

Mr. Abrams. Well, you have to see what the individual says about his or her case. There are a number of cases that relate back to events that happened in 1979 and 1980. That is not necessarily a controlling description of what we have today in El Salvador. It was a different situation then.

If an individual claims, for example, that a member of his or her family suffered persecution, well, we ask, "How many people are in your family?"

If there are five siblings, one who has suffered persecution, the one who is now applying for asylum and four living in El Salvador, absolutely happy without persecution, that contests the conclusion that every sibling meets with persecution.

There are ways of checking it out. If you claim that you were persecuted by the army in a certain town, we can try to see if the army was ever in that town. It is not hopeless to try to check on the individual application.

But, you know, an application for asylum is a very intelligent thing for any alien to submit because he gains between 18 months and 2 years while we process it. Any immigration lawyer worth his salt advises his client who faces deportation, "Go ahead and file the application. You have nothing to lose and a year or two to gain."

So we do have to ask if applications are indeed dilatory or frivolous. We do have to go beyond——

EXTENDING STAY WITH ASYLUM APPLICATION

Senator DECONCINI. Are you saying that if the 300 plus Salvadorans here all submit applications for asylum they would be buying themselves 18 months or 2 years while you review their applications?

Mr. ABRAMS. That is in fact what happens.

Senator DECONCINI. That is what would happen?

Mr. ABRAMS. It is happening.

Senator DECONCINI. In that case there will be no need for my legislation to grant an 18-month temporary status while the GAO does the study if we could get them all to just submit?

Mr. ABRAMS. In fact, that is how the system works.

Senator DECONCINI. Thank you. I didn't know that.

Well, Mr. Chairman, I have some questions that I will submit. I know the other Senators want to get on. So, thank you. I will submit for the record.

Senator SPECTER. Thank you, Senator DeConcini. We will now turn to——

Senator LEAHY. I have a question on this.

Senator SPECTER. Senator Leahy.

SANCTUARY MOVEMENT

Senator LEAHY. There have been many recent news reports about religious groups in this country providing sanctuary to Central American refugees. Some are from El Salvador, some are from Guatemala. The INS has made some well publicized arrests of members of these groups.

It appears to me—and I hope I am not doing them a disservice—that there is as much effort being made to draft press releases as doing the law enforcement work on these cases. Is there a concentrated effort to selectively pick some of these for their press appeal or to make an example? How did you pick them?

Mr. ABRAMS. Well——

Senator LEAHY. Or is it just that we have given the INS such a huge budget that they have more people than they know what to do with, so they have to do this?

Mr. ABRAMS. In defense of another agency, I think they are underfunded. The answer really is, Senator, the prosecutor decisions are made by the Immigration Service and the Department of Justice and the local U.S. attorneys.

I have asked the question that you posed. I think that the answer that they would give is, "It is being said by many people in the sanctuary movement that what they were doing was not, in fact, illegal. It is, therefore, important to take, at least, a few cases to court to ask a judge and jury whether we were not correct in saying, 'Oh, no, this is illegal'."

Once that is done, it is really not possible anymore for them to be saying that the activity is not illegal when judges and juries have made that ruling.

Senator LEAHY. Was there any coordination between the INS and the Department of State in the cases that the INS picked?

Mr. ABRAMS. None.

Senator LEAHY. None at all?

Mr. ABRAMS. None.

Senator LEAHY. Any coordination subsequent to the case's disposition?

Mr. ABRAMS. None.

Senator LEAHY. Is there any coordination now between INS and the Department of State concerning the sanctuary movement?

Mr. ABRAMS. We do not get into any of the prosecutorial questions at all. We coordinate, I guess you would say, informally, in the sense that I keep in touch with the Commissioner of Immigration and to some degree with officials in the Office of Congressional Legislation, really, mostly to keep sure that what we are doing in the asylum office is legal.

The Office of Immigration Legislation is the one that actually tries these cases around the country. So I asked them to keep me posted as to what judges are deciding what is legal and what isn't, to make sure that our procedures remain legal.

Senator LEAHY. There has never been a case then, where the INS has come to you and notified you ahead of time that they are going to go after a particular sanctuary group?

Mr. ABRAMS. That's correct. They have never done that.

Senator LEAHY. There was never a case where they asked for your advice ahead of time?

Mr. ABRAMS. That's correct.

Senator LEAHY. Thank you, Mr. Abrams. Thank you, Mr. Chairman.

SUBMITTED QUESTIONS

Senator SPECTER. Thank you, Senator Leahy. Thank you very much, gentlemen. We very much appreciate your being with us.

The committee has additional questions which we will ask you to respond to for the record.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the record:]

QUESTIONS SUBMITTED BY SENATOR KASTEN

KHMER RELIEF

Senator Kasten: In your FY 1986 justification material you state that the situation along the Thai-Cambodian border remains precarious, but that the number of refugees on the border "is not expected to increase substantially in 1986 unless unforeseen circumstances arise."

Considering the step-up in hostilities in Cambodia over the last six weeks, will the State Department be re-thinking its request for Khmer Relief? It is inconceivable that the numbers of refugees would decrease, as you originally thought. Will you ask for a budget amendment?

Mr. Purcell: The request for $12 million for Khmer relief is based on our prediction of the regular expenses of the U.N. Border Relief Operation (UNBRO), the International Committee of the Red Cross (ICRC) and voluntary agencies working on the Thai-Cambodia border for the current number of refugees. It represents a continuation of the 1984 and 1985 levels which, with the support of other donors, have been sufficient to meet the basic needs of the displaced Khmer. UNBRO remains one of the best administered and most efficient international relief efforts. At this time Vietnam's future actions which could result in an influx or in further destruction of the present evacuation sites cannot be predicted. We believe that the $12 million is a realistic appraisal of the program's needs. Should additional funds be required to meet emergency needs during 1986, we will seek additional funding.

ICM TRANSPORTATION LOANS

Senator Kasten: Refugees resettled in the United States are loaned the money (through the Intergovernmental Committee for Migration) to cover the cost of their transportation to this country. Although these same refugees agree to repay these loans within three years of their arrival, efforts to collect on these loans by the U.S., I.C.M., and voluntary agencies have generally been unsuccessful, and few refugees are repaying these loans. Do you have any new information on the current status of loan collection activities and how effective they have been?

Mr. Purcell: For the past five years the Bureau has devoted special efforts to improving the collection of the transportation loans administered by the Intergovernmental Committee for Migration. We have worked closely with ICM and the voluntary agencies, which maintain contact with the refugees and actually collect the repayments, to standardize the collection process and to emphasize the importance of repayment. It is clear that these efforts have resulted in substantial improvement in the annual collection levels: from $1.4 million in 1980 to $11.3 million in 1984.

Senator Kasten: What is being done by State, I.C.M., the voluntary agencies to improve loan collections?

Mr. Purcell: While our efforts over the past five years have resulted in substantial improvement in loan collections, the Bureau continues to work with ICM and the agencies. We are revising language in the loan note that will permit various actions to encourage refugees to repay their loans. Computerization of agency records will also increase their ability to maintain contact with the refugees for followup actions. I am convinced that loan collections will continue to improve, although they may level off since the number of new loans has been reduced over the past few years.

REFUGEE CAMPS IN MEXICO

Senator Kasten: Last year we spent some time discussing refugee camps in Mexico. At that time there was very little cooperation by the Government of Mexico to (1) move the refugee camps away from the border; (2) the Government's refusal to allow persons outside of the Government of Mexico and the UNHCR to visit those camps; and (3) their refusal to work with private voluntary organizations.

Can you give us an update on that situation? Has the Government of Mexico been more willing to cooperate?

Mr. Purcell: Extensive discussions by Department of State and Bureau of Refugee Program representatives with individuals from the UNHCR and the Government of Mexico have resulted in significant improvements in this area. The Government of Mexico, working with the UNHCR, has so far relocated some 18,000 of the 43,000 Guatemalan refugees away from the border region to new sites in the states of Campeche and Quintana Roo. The relocation is progressing smoothly and the overall refugee program in Mexico seems to be running well.

Officers from the US Embassy in Mexico City and the US Consulate in Merida, as well as from the Department of State in Washington, have been able to visit the refugee camps. The Government of Mexico has been very cooperative in providing access to the various camps.

The Government of Mexico, through its Mexican Refugee Assistance Commission (COMAR) and with the assistance and advice of the UNHCR, is performing well in meeting refugee needs. UNHCR representatives have stated that their working relationship with the Government of Mexico is good.

UNHCR IN SUDAN

Senator Kasten: We have received reports over the last several weeks that the "U.N.H.C.R." has not done a very commendable job in Sudan, and in fact, the United States has indicated some displeasure with that agency because of its shortfalls in administering an emergency program in that country.

What is the current status of the "U.N.H.C.R." activity in the Sudan, and do you have any reason to believe that we can see some improvement?

Mr. Purcell: The tremendous increase in the refugee flow from Ethiopia, which began in the latter months of 1984, was not anticipated by the United Nations High Commissioner for Refugees (UNHCR) and other international organizations. There was little contingency planning for food, water, shelter and health care for a refugee population malnourished and in poor health from the long trek to Sudan. The new arrivals overwhelmed the relief system in eastern Sudan.

With emergency assistance from the U.S. and other donors, the UNHCR has improved its Sudan operation by increasing its field staff, improving relations with private voluntary agencies delivering services in camps, strengthening coordination with Sudan's office of the Commissioner for Refugees, planning relief and food supplies through the end of 1984 with projections of continued flows from Ethiopia, and coordinating donor community assistance with the UN Office of Emergency Operations in Africa and other international organizations such as the World Food Program. The U.S. will continue to monitor UNHCR performance and support its emergency activities as required.

REQUEST FOR AFRICA

Senator Kasten: Your FY 1986 request for the African refugee assistance program is confusing. Understandably you may be receiving more than expected in the FY 1985 supplemental, and possibly in anticipation of that you have decreased your request for FY 1986, but the trend in your request over the last two years is still confusing.

Recent appropriations have been: $58,639,000 in FY 1984, and $52,500,000 in FY 1985. You are presently requesting $51 million for FY 1986. That is a $7,639,000 decrease in the African refugee assistance program in two years -- during the worst drought and refugee situation ever witnessed in Africa.

Your request is not realistic given the events over the past year. How do you justify this decrease in the program?

Mr. Purcell: The requested funding for the Africa programs of the UNHCR and the International Committee of the Red Cross (ICRC), which we have held at the original 1985 level of $42 million for the UNHCR and $6.5 million for the ICRC, should be sufficient for the core programs of these two organizations as currently estimated. If the current drought-related crisis continues, we may seek additional funding to provide more emergency assistance from the US Government.

The $1.5 million decrease occurs in the Africa/Special Projects line item. The change from $4 million in FY 1985 to $2.5 million in FY 1986 results from both the Department's policy of contributing to multilateral assistance wherever possible and the UNHCR's improved capacity to respond by using more private voluntary agencies as implementing partners. In addition, with the continuing emergency in Africa and despite limited resources, funding for life-sustaining activities is receiving higher funding priority.

This reallocation does not reduce support for Southern African refugee scholarships. We intend to continue supporting the two scholarship projects, African American Institute (AAI) and Phelps Stokes Foundation (PSF), that are currently being funded from the Special Projects line item. Support continues as in previous years, with AAI assistance for 207 students and PSF aid for 50.

COOPERATION OF ETHIOPIAN GOVERNMENT

Senator Kasten: The "New York Times" carried an article on Monday of this week which indicates a further deterioration of relations between the donors and Ethiopia. Would you comment on the current situation, emphasizing the degree of cooperation or non-cooperation of the Ethiopian government?

Mr. Purcell: The Department and the Agency for International Development (AID) have coordinated discussions with the Ethiopian government. The US is currently engaged in constructive talks with the Ethiopian government regarding the delivering food to all the needy in Ethiopia. We do not know how the situation will be resolved. However, we will keep the committee informed on the status of the discussions.

CONTRIBUTION TO UN COORDINATOR'S OFFICE

Senator Kasten: Can you tell the Committee what your intentions are with respect to making a contribution to Brad Morse's emergency office on African relief, for the two year period being contemplated for his operation?

Mr. Purcell: Both AID and the Department of State are considering requests for 1985 funding for the UN Office of Emergency Operations in Africa (OEOA) directed by Bradford Morse. State's Bureau of International Organization Affairs (IO) is requesting $1.4 million for OEOA in 1986.

AGREEMENT ON VIETNAMESE POLITICAL PRISONERS

Senator Kasten: You mention in your justification material that the U.S. Government and the Socialist Republic of

Vietnam are currently negotiating an agreement to initiate a program for the resettlement in the United States of political prisoners and their families.

Can you give us an idea of how those negotiations are progressing?

Mr. Purcell: During the past three years the United States has informed the Vietnamese repeatedly that it is prepared to negotiate the release and resettlement in the United States of the "re-education camp" political prisoners.

Since the U.S. and Vietnamese delegations met on this important humanitarian question in Geneva on October 4, 1984, the United States has proposed twice to the Vietnamese that we resume negotiations on the prisoners' release and resettlement.

In answer to our first proposal to meet in January, the Vietnamese responded that they did not consider the proposed dates appropriate and falsely accused the United States of intending to use the resettled prisoners in hostile activities against Vietnam. However, the Vietnamese reaffirmed that they were ready to continue discussions on this question with the American government.

Our response to the Vietnamese denied their false accusations, but noted their willingness to continue negotiations and proposed meeting in February. The Vietnamese have not responded to this most recent U.S. proposal.

Notwithstanding this unresponsive Vietnamese attitude, we remain firmly committed to obtaining the release of political prisoners and their resettlement to the United States. Since an agreement has not yet been reached, however, we have not budgeted in FY86 specifically for the admission and resettlement of political prisoners. As soon as there is an indication of agreement, we will promptly consult with the Congress to ensure their admission.

STATE/AID ROLES

Senator Kasten: Have any working arrangements been reached by State and AID concerning the appropriate roles of the two agencies in assisting refugees?

Mr. Purcell: Current policy is that the Bureau for Refugee Programs (RP) is responsible for administering refugee programs abroad. Nevertheless, this policy recognizes that in specific cases involving the integration of refugees into first asylum countries, specifically-tailored plans may have to be developed in which AID would have operational responsibility.

For example, during the current African crisis, RP and AID have been working closely together on the African Drought Task Force, chaired by General Becton, head of AID's Office of Foreign Disaster Assistance, and on the Interagency Group on

Ethiopia and Sudan (IGETSU), chaired by Deputy Assistant Secretary Lyman of the Department's Bureau of African Affairs, to ensure that programs to assist refugees are coordinated and integrated with relief programs for nationals of drought-stricken countries.

RP also works with AID on allocating Food for Peace commodities to feeding programs for refugees and displaced persons, and on designing and implementing ICARA II-type projects.

RP and AID continue to work closely in Central America in providing coordinated relief and assistance to refugees in Honduras.

SENIOR INTERAGENCY GROUP FOR REFUGEE POLICY

Senator Kasten: In 1983 a senior interagency group for refugee policy was created to consolidate and improve refugee policy-making. What has been A.I.D.'s involvement in this group?

Mr. Purcell: AID has participated in all Senior Interagency Group/Refugee Policy (SIG/RP) meetings. AID's involvement has been particularly constructive where issues under consideration involve policy questions relating to development issues. AID's participation was particularly important in developing US policy on development matters for the Second International Conference on Assistance to Refugees in Africa (ICARA II). AID has also attended SIG/RP meetings where development policy questions were not the central issue, such as meetings to determine Administration policy on annual refugee admissions ceilings and Central American issues.

Senator Kasten: Has this group improved policy making in the refugee area?

Mr. Purcell: Yes. Establishment of the Senior Interagency Group/Refugee Policy has provided an improved focus for consideration of US policies on refugee matters. Its principal value lies in its formalization of a process to elicit views of numerous cabinet departments and independent agencies where domestic and foreign policy pressures must be reconciled. The SIG/RP was particularly useful in developing the Executive Branch's recommendation to the President (A) regarding FY 1984 adjustments in refugee processing guidelines and (B) in establishing our FY 1985 ceiling for refugee admissions to the U.S. Utilization of the SIG/RP mechanism also improved US policy development for our position on the ICARA II Conference on issues of refugee relief and development in Africa. The group has met only on an "as needed" basis since there are several special working groups (e.g., African Drought and Central America) in addition to extensive working level contacts.

ICM RETURN OF TALENT PROGRAMS

Senator Kasten: In 1984, the Intergovernmental Committee on Refugee Migration (ICM) spent $1.2 million "to contribute to the economic and social development" of Latin American countries by providing qualified and specialized human resources not available locally. One program, the "return of talent program", attempts to provide individuals who have left their homes, primarily for economic reasons, sufficient incentive to return and thereby counteract the negative effects of the "brain drain". I am interested both in how effective these programs have been, and how cost effective they are.

Mr. Purcell: ICM Programs for the international movement of qualified personnel for development purposes have been in existence for several years. Under these programs, more than 29,000 highly qualified specialists and technicians have been transferred from industrialized countries to Latin America. Approximately 40% of these were graduates of university level or equivalent institutions, 26% were graduates of technical training institutes and 33% were skilled workers. In recent years, the percentage of university-trained migrants has reached as high as 70%.

The impact of these programs has yielded significant benefits to the receiving countries in education, in industry and in agriculture. The contribution to middle level education and particularly to vocational training has strengthened the educational system throughout Latin America and has reduced the need for and the costs of sending students abroad for training. In the industrial sector, the multiplier effect, the improvement of techniques and the expansion of facilities have led to new openings and better on-the-job training for local non-skilled and semi-skilled workers. The introduction of foreign agriculturalists into the agricultural sector has contributed to increased production through the dissemination of their knowledge of cultivation techniques.

To evaluate fully the benefit derived from integrating these qualified individuals on a long-term basis into an economy, one must also take into account the direct contribution they make by their presence in the country. The United Nations estimates that the per capita value of a medium level technician in terms of education, preparation and training is about $40,000. The transfer of 29,000 such people thus represents a value in excess of $1 billion.

In 1984, ICM estimated expenditures of $1.2 million under its programs for the Transfer of Specialized Human Resources to Latin America. Through the various activities under this program for the transfer of technology through human resources (Selected Migrants, Return of Talent Cases and Integrated Experts), ICM planned the movement of some 2,450 persons during this year to developing countries in Latin America.

NEW POSITIONS

Senator Kasten: You are requesting $7,880,000 for administrative funds for 1986, a $270,000 decrease from FY 1985. This decrease includes those funds to be cut under the Administration's proposal to reduce the pay of federal employees. However, also included in this $7.9 million is a request for three additional employees — which reduces the amount of the decrease caused by the pay cut.

If the Congress does not approve the pay cut to federal employees, what will your position be on the three new positions you are seeking?

Can you rank those three positions in order of importance should the Congress not approve full funding for those positions?

Mr. Purcell: We feel that these new positions are vital to the efficient and effective operation of the refugee program. Should Congress not approve the pay cut for federal employees, we would still make every effort to staff the three new positions requested in FY 86.

The priority ranking of these positions is as follows:

1. Refugee Coordinator, Tegucigalpa, Honduras
2. Program Officer, English as a Second Language/Cultural Orientation (ESL/CO) training - RP/TR
3. Program Officer, Reception and Placement - RP/RPL

DISASTER MANAGEMENT CENTER

Senator Kasten: The Disaster Management Center at the University of Wisconsin is currently working with you on problems associated with the disaster in Africa. It is my understanding that they are also trying to do some work with the High Commissioner for Refugees.

I would like to compliment you for using this very worthwhile center and would ask you to provide the committee with a report on what you are going with that center, together with any additional proposals and the possibility for their work with the UNHCR.

Mr. Purcell: The Bureau for Refugee Programs is funding the development of self-study courses by the Disaster Management Center to train both private voluntary organization and national relief workers in how to perform effectively in refugee emergencies and natural disasters. As you know, in July 1984, the Bureau for Refugee Programs approved $80,000 dollars for development of the refugee component of their curriculum.

The directors of the Disaster Management Center also have been negotiating a possible training involvement with UNHCR's Office of Emergency Operations. The UNHCR's Emergency Operations Director, Mr. Philip Sargisson, is anticipating coming to Madison soon to discuss a proposal for training UNHCR staff. The current proposal envisages a five-tier exercise which will begin with inital seminars for upper echelon personnel and culminate with staff training. Experience gained in the East Sudan Refugee Emergency would be the departure point for training.

The U.S. provided $300,000 in March to the UNHCR to initiate staff training to meet emergencies. It is anticipated that this funding will at least in part be used to retain the services of the Disaster Management Center. Also the Ford Foundation may contribute approximately $100,000 for emergency operations training.

QUESTIONS SUBMITTED BY SENATOR HATFIELD

RECEPTION AND PLACEMENT GRANTS

Senator Hatfield: The budget proposes additional monies for reception and placement grants for voluntary agencies. However, these monies accompany an intent on the part of the Administration to implement the unauthorized "Lungren Amendment," to impose a "legal and financial" responsibility upon voluntary agencies for the refugees they resettle during the first 90 days of that resettlement. Does the Administration intend to implement the Lungren Amendment through regulation?

Mr. Purcell: The Administration supports enactment of legislation in the present Congress to establish by statute additional Reception and Placement program requirements. The additional program requirements, however, can be implemented under current legislative authorities. As stipulated in the Department's budget submission, we intend to include in future cooperative agreements the specific requirements for meeting the basic needs of refugees for a 90-day period dependent upon the level of funds appropriated for this purpose.

Senator Hatfield: Has not this been opposed by the voluntary agencies as well as state and local governments as being impractical?

Mr. Purcell: When the Lungren Amendment was introduced in the previous Congress, the voluntary agencies opposed it on policy grounds, arguing that such legislation was unnecessary and inappropriate. As to the question of practicality, we believe that the voluntary agencies are willing to accept the functional responsibilities established by the Lungren Amendment if they receive a level of federal funding commensurate with the requirements. The Department of State believes that the budget request currently before the Congress contains an adequate level of funding for this purpose.

We have not been informed of the positions taken by state and local governments on this issue, but we expect that their views will be made known during the forthcoming hearings before the House Judiciary Subcommittee.

Senator Hatfield: Does this mean that a sponsoring church or synagogue becomes a government welfare agency, and must maintain the refugees at whatever the local county welfare level is?

Mr. Purcell: No. It is not the intention of the Administration that a sponsoring church, synagogue, or other group or individual would simply substitute for the local welfare agency. The nature of private sector sponsorship, which we seek to extend and reinforce, is that of support and service appropriate to each individual case, maxmimizing the use of volunteer time and donated resources. Cash payments represent only one of the means of meeting the basic needs of refugees, and it is precisely this variable and personalized mix of support services which is the essence of the voluntary agencies' role. The sponsors will be required to maintain refugees at a level sufficient that they will be ineligible for welfare, but how they do this will vary. In many cases a private sponsor will support a refugee at a level substantially higher than the local welfare level. By extending the period of voluntary agency responsibility we hope to obtain the most productive use of federal funds while offering the refugees the greatest assistance towards becoming self-sufficient members of our society.

CUTS IN AFRICA, INDOCHINA REQUESTS

Senator Hatfield: There are 3-4 million refugees and displaced persons in Africa depending on international relief assistance, and 250,000 new Khmer temporarily relocated in Thailand similarly dependent. Yet the Administration budget proposes cuts in refugee assistance in Southeast Asia and Africa by millions of dollars because of "reduced needs in the areas". In light of the fact that the Sudan will probably receive another 300,000-500,000 in the next three months, how can you propose a $1.5 million cut in Africa and a $4 million cut in Southeast Asia in 1986?

Mr. Purcell: The funding requested for the programs in Africa of the United Nations High Commissioner for Refugees (UNHCR) and the International Committee of the Red Cross (ICRC), which remain at the original 1985 level of $42 million for UNHCR and $6.5 million for the ICRC, should suffice for the core programs of these two organizations as currently estimated. If the current drought-related crisis continues, we may seek additional funding to provide more emergency assistance from the US Government.

The $1.5 million reduction for Africa occurs in the Special Projects line item. This change from $4 million in FY 1985 to $2.5 million in FY 1986 results from both the Department's policy of contributing multilateral assistance wherever possible and the UNHCR's improved capacity to respond by using more private voluntary agencies as implementing partners. In addition, with the continuing emergency in Africa and despite limited resources, funding for life-sustaining activities is receiving high priority .

This reallocation does not reduce support for Southern African refugee scholarships. We intend to continue supporting the two scholarship projects, African American Institute (AAI) and Phelps Stokes Foundation (PSF), that are currently funded from the Special Projects line item. Support continues as in previous years, with AAI assistance for 207 students and PSF aid for 50.

In Indochina, funding for the 250,000 Khmer refugees cared for by the UN Border Relief Organization (UNBRO) remains at the 1985 level of $12 million. This request includs $4.8 million less in funding for UNHCR/Southeast Asia. With projected declines in refugee camp populations during 1985 and 1986, the UNHCR's needs should be met at this reduced level. Savings should result from consolidation of camp services and associated decreases in care and maintenance costs.

Also, the request for anti-piracy funds is $4 million less.

These projections are based on continuing resettlement efforts with no major refugee flows that might offset these anticipated savings.

REDUCTION IN ANTI-PIRACY PROGRAM

Senator Hatfield: How can the U.S. support a continued anti-piracy program on the one hand while cutting the funding of the program for Malaysia and Thailand by $4 million in 1986?

Mr. Purcell: The $1 million proposed for FY86 represents our estimate of the funds needed to continue funding the present program strategies, which are,

-- for anti-piracy, to strengthen on-shore law enforcement and to continue the air/sea patrols in the Gulf of Thailand in order to deter pirates' attacks, and

-- for rescue-at-sea, to enhance ongoing UNHCR and IMO programs which support rescue-at-sea by merchant ships in the area and to seek new ways to encourage this activity.

The proposed funding is less than in previous years because capital acquisitions for both these approaches are virtually completed and the funds expended. Therefore, the figure now represents almost wholly operational costs. Additionally, some initiatives, particularly the on-shore law enforcement program, are low-cost.

We will also seek the use of UNHCR care and maintenance funds to continue supporting certain activities more appropriately financed from that source, such as counseling for the victims of pirates' attacks.

I believe that the record of the United States in combatting piracy is one of the greatest examples of burden-sharing and internationalization that we have had. We have been able to get 13 governments to fund this program now. I think that we have, through the leadership of the United States, certainly made clear to the world that we are serious about piracy and we have mobilized the donors to take it seriously.

REFUGEES AT DONG RUK

Senator Hatfield: What has happened to the refugees who were at Dong Rek up until the Vietnamese attack in late February?

Mr. Purcell: The Vietnamese who were at Dong Ruk when it was attacked on January 25 are now at Site 2 inside Thailand. Their initial evacuation site, Site A, was judged to be unsafe and they moved to the present site in early March. With assistance from the U.N. Border Relief Operation (UNBRO) and the International Committee of the Red Cross (ICRC), the Vietnamese who had arrived overland were evacuated without casualties and have been established in separate compounds at both evacuation sites. The approximately 1,350 who have been accepted for third country resettlement relocated from Site A to the Phanat Nikhom transit center to complete processing. Some of these refugees have begun ESL/CO training in the Bataan Refugee Processing Center and others have moved to their new homes in order to meet the 45-day deadline of the Royal Thai Government (RTG) for departure from Thailand.

REPORTS FROM EMBASSY BANGKOK

Senator Hatfield: Will the Embassy in Bangkok commit to providing me with timely reports or material developments affecting Indochinese refugees?

Mr. Purcell: The Embassy in Bangkok and the Department will continue to provide the Chairman with timely reports on Indochinese refugee issues.

CAMBODIAN REFUGEE SCREENING

Senator Hatfield: There have been a lot of complaints that the screening process for Khmer Rouge among the Cambodian refugees is unfair, resulting in high rejection rates. What is being done to improve this process? What will happen to the people rejected?

Mr. Purcell: Processing difficulties led to a high rate of denials for Khmer refugees in the early part of FY83. After new Immigration and Naturalization Service (INS) guidelines were established in August 1983, however, greater numbers of Khmer refugees were processed and approved for admission to the United States. In FY84, 79.2% of the Khmer refugees considered had been approved -- 17,611 of the 22,238 applicants.

By law the United States cannot admit as a refugee anyone who has participated in the persecution of others, and we therefore make every effort to screen out Khmer Rouge members. Every Khmer case with a possible Khmer Rouge affiliation or other possible participation in persecution is evaluated by three separate sets of examiners: Joint Voluntary Agency representatives, a Department of State Ethnic Affairs Officer, and a Department of Justice INS Officer.

State and Justice Department representatives recently intensively reviewed the entire issue of Khmer processing to determine whether those who review Khmer cases need further guidance and resources. Several procedures were modified and revised, including the review process for denied cases.

PLANS FOR KHAO I DANG

Senator Hatfield: What are Thailand's plans for the Kao I Dang refugee camp - are they going to shut it down this year as they've been saying? What will happen to the refugees still there?

Mr. Purcell: The future of Khao I Dang refugee camp is uncertain at this time. The current Khmer refugee population will remain at the camp until they have been reviewed for third country resettlement. After the resettlement countries have completed processing applicants, the Royal Thai Government will reassess the possibility of voluntarily relocating persons refused resettlement to a camp of the individual's choice in the Thai/Cambodian border region.

One major constraint to Thai planning for Khao I Dang is the instability along the Thai/Cambodian border. Recent military advances on the border by forces of the Socialist Republic of Vietnam and the decision to limit acces by the resistance forces to supply facilities in Thailand make predicting the future security of the Thai/Cambodian border region very difficult. It is currently unknown when the civilians from the border at the evacuation sites may return to Cambodia, although the UNBRO and the RTG are planning to rebuild some border encampments.

ICARA II

Senator Hatfield: Why has there been no request for any funds to support the refugee-related development projects which were identified as a result of ICARA II (Second International Conference on Assistance to Refugees in Africa, Geneva, July '84), which your budget submission commends?

Mr. Purcell: After feasibility study and project design, it is anticipated that AID will contribute funds to selected ICARA II projects by using resources previously appropriated for refugee resettlement and facilities as well as development assistance funds and, where available, local currencies. Already, some "ICARA II" projects have been financed with AID development assistance funds for health programs.

Many of these projects may require three to five years for completion. While some limited funds are still available from the African Resettlement Services and Facilities project for which $10 million has been tentatively allocated, we are continuing to identify and design projects with our field missions.

"ICARA II" has come to describe a process of integrating refugee and development aid to relieve more efficiently the burdens associated with hosting refugees that are borne by lesser developed African countries. It is hoped that, as the process becomes institutionalized, host and donor nations will regularly budget for many of the "ICARA II" projects.

AID TO AFGHAN REFUGEES

Senator Hatfield: How much aid is the US giving either bilaterally to Pakistan or multilaterally through the UNHCR to support these Afghan refugees? How is that aid being used?

Mr. Purcell: In FY 1985, the Bureau for Refugee Programs will provide $19.5 million to the UNHCR for care and maintenance and self-sufficiency projects. An additional $2.9 million is to support the ICRC and private voluntary agencies in providing various health care and educational services.

Our request for FY 1986 includes $17 million for the UNHCR and $3 million for the ICRC and other agencies.

The reduction in our funding for the UNHCR program in Pakistan in part results from a projected decrease in the 1986 UNHCR budget. Rising strength of the US dollar vis-a-vis the Pakistan rupee accounts for some of the decrease too. We also project no growth in the refugee population.

Additional funding from rupees excess to the PL-480 program in Pakistan should bring the level of the USG contribution to about 30% of the UNHCR program budget.

Because of the continuing needs of the Afghan refugees, and because of the major importance of this program in our overall relationship with Pakistan, we anticipate remaining at about this level of funding in the foreseeable future, barring any unexpected refugee inflows.

REFUGEE POLICY

Senator Hatfield: In order to better understand the rationale behind the formulation of our refugee policy and its relationship to other foreign policy concerns, I would like to postulate a hypothetical situation and receive your reading. Let us say there is a country which is the source of a considerable number of refugees entering the U.S. Let us further assume that we are granting political asylum to a large percentage of these refugees because we have clearly determined that they face a high risk of physical harm if they were to return. This portrait of the country's political situation having been clearly established, and I understand that you cannot answer such a hypothetical question concretely, would you surmise that this would not be a country with which this nation could, under U.S. law, maintain a military aid relationship?

Mr. Purcell: Refugee admission and asylum decisions are made on a case-by-case basis based upon applicable standards of law. Since the specific circumstances which lead to such decisions vary widely, it is difficult to speculate on what decision might be made in a particular hypothetical situation. In addition, in providing military assistance to a country, the United States ensures compliance with all applicable statutes, including Section 502B of the Foreign Assistance Act of 1961, as amended, which states, inter alia, that "no security assistance may be provided to any country the government of which engages in a consistent pattern of gross violations of internationally recognized human rights".

KHMER BORDER RELIEF

Senator Hatfield: What is the U.S. doing in the way of humanitarian aid for those on the Thai/Cambodian border?

Mr. Purcell: Overall, the U.S. has been the largest contributor to the Khmer border relief program since its inception in 1979. In 1984, the Department contributed over $10.0 million in cash to the UNBRO and $1.5 million to the ICRC.

The UNBRO budget estimate for 1985 requirements totals $36.7 million. There is no UNBRO reserve to respond to such emergencies as the evacuation and relocation of camps caused by Vietnamese military attacks, but special appeals may raise funds to meet those emergency costs. The U.S. has already contributed $4 million to the UNBRO 1985 budget and will provide additional funds out of the FY 1985 allocation of $12 million for operating and emergency expenses. We have also encouraged other donors to help meet continuing UNBRO needs for funding operations and the emergency expenditures during the Vietnamese dry season offensive. $1.5 million has been provided to the ICRC for its medical programs on the border. If necessary to meet further emergency needs, we may seek additional funding.

Also, U.S. initiatives in both 1983 and 1984 led to RTG and UNBRO planning for evacuating the militarily vulnerable border camps. This minimized casualties during the last two dry season offensives. There have been 13 temporary evacuations this year.

SOUTHEAST ASIA REFUGEE CEILINGS

Senator Hatfield: Where does our acceptance of Amerasians and re-education camp prisoners from Vietnam fit into the refugee ceilings you have proposed? How would this further reduce the first asylum numbers from Southeast Asia?

Mr. Purcell: Most Amerasians who depart Vietnam for the United States are refugees and are included in the admissions ceiling for the Orderly Departure Program (ODP). The ODP refugee admissions ceiling is separate from the East Asia first asylum admissions ceiling.

The United States and the Government of the Socialist Republic of Vietnam have not yet reached an agreement concerning the admission of re-education camp prisoners to the United States. We therefore have not requested funds for any significant admissions increase which might result if an agreement is reached.

Since ODP refugees have a separate admissions ceiling, increasing or decreasing numbers of Amerasians and/or re-education camp prisoners has no effect on the number of refugees admitted from first asylum camps in Southeast Asia. An increase of one of these ceilings does not necessarily mean a decrease in the other.

AMERASIANS

Senator Hatfield: How many Amerasians do you expect to resettle in FY 1986? How many are refugees and how many are immigrants?

Mr. Purcell: It is difficult to predict with precision how many Amerasians will enter the United States in FY 1986. However, it is our hope that between 4,300 and 5,000 Amerasians and accompanying family members will enter the United States during the next fiscal year. Estimates are that, of those entering, about 100 will be American citizens, about 150 immigrants, and the rest refugees.

At the October 1984 UNHCR-sponsored Orderly Departure Program meetings in Geneva, the U.S. delegation urged the Socialist Republic of Vietnam to schedule more Amerasians for interviews and to schedule Amerasians on flights out of Vietnam more than once a month (the current practice). Recently the Vietnamese have begun to increase the numbers of Amerasians scheduled for interviews.

Senator Hatfield: How many do you anticipate to be approved but not resettled during FY 1985 (excluding 1984 carryovers)?

In FY 1985, we estimate that about 2,000 Amerasians and accompanying relatives will have been approved but not resettled to the United States. These individuals will enter the Refugee Processing Center (RPC) at Bataan in the Philippines for English Language Training and Cultural Orientation (ESL/CO) and will not reach the United States until 1986.

QUESTIONS SUBMITTED BY SENATOR INOUYE

EMERGENCY FUND DRAWDOWNS

Senator Inouye: You have noted that the Emergency Refugee and Migration Assistance Fund is a separate appropriation to "fund urgent and unexpected needs which are not anticipated in a regular budget request. You also note that the President has authorized a drawdown of the Fund twice in the past year for Africa.

Why was this authority used twice in one year? Was there a failure to anticipate needs or a failure to request sufficient funding to meet known or anticipated needs?

Mr. Purcell: Refugee crises often arise unexpectedly and demand response based on incomplete initial analyses of needs. Subsequent information often reveals a larger problem than initially projected. In seeking Presidential drawdowns of the Emergency Fund, the Department tries to balance the need for funds sufficient to meet requirements with our obligation to conserve financial resources for budgeted programs.

The President has authorized two drawdowns of the Emergency Fund in the past twelve months. The first, for $5 million in September 1984, provided $3.8 million for the 1984 expanded Africa appeal of the ICRC. The remaining $1.2 million supported a 1984 emergency program of the UNHCR for returnees in Uganda.

The second drawdown, in January 1985, provided $6 million for the 1985 UNHCR emergency appeal for Africa, $12 million for the expanded 1985 Africa appeal of the ICRC, and $5 million for resesttlement of African refugees outside the region. The extent of the drought-related refugee crisis in Africa was not known when the Department developed its FY 1985 budget request. With the expanding refugee population and needs in Africa, the Department may seek another drawdown by the President of the Emergency Fund before the end of this fiscal year.

ENLARGING THE EMERGENCY FUND

Senator Inouye: Why should this fund not be enlarged? Has the experience of the past year not indicated that it is too small to meet present-day emergencies?

Mr. Purcell: The exact likelihood or magnitude of refugee emergencies cannot be predicted with any precision. Further, we try to reprogram available resources whenever appropriate to meet emergency requirements. Therefore, the Bureau for Refugee Programs has often been able to meet emergency needs without large-scale drawdowns.

The Refugee Act of 1980 provides for permanent authorization of up to $50 million for the Emergency Fund. We have requested a $25 million replenishment of the Emergency Fund in the 1985 supplemental to meet cases which, like the current African situation, require massive emergency funding.

HISTORY OF EMERGENCY FUND

Senator Inouye: When was the Emergency Fund established and at what level of funding? In constant dollars, with the year of origin as the base, what would the current level have to be set at to maintain the same value?

Mr. Purcell: The Emergency Fund was authorized at $25 million on November 29, 1975, (PL94-141) amending the Migration and Refugee Act of 1962. The Refugee Act of 1980 subsequently amended this section to provide for $50 million in permanent authorization for the Emergency Fund.

The original $25 million authorization would equal about $48.3 million in 1984, based on the consumer price index from the IMF publication International Financial Statistics.

CUBAN REFUGEES

Senator Inouye: What are the terms of the agreement reached with Cuba last December regarding the admission of political prisoners?

Mr. Purcell: The terms of the agreement reached with Cuba last December regarding the admission of political prisoners will apply to those persons who, having been released after serving sentences for acts which the Cuban penal legislation defines as "Offenses against the Security of the State", wish to reside permanently in the United States. The United States agreed to take the necessary steps for admission during 1985 of up to 3,000 such persons, including immediate family members, under applicable United States law. The 1986 Western Hemisphere ceiling of 3,000 will permit additional admissions from this program.

Senator Inouye: Are these prisoners to be admitted as refugees seeking political asylum? Will their admission be reviewed for compliance with the same standards applied to Salvadoran refugees who apply for political asylum?

Mr. Purcell: Yes, these prisoners will be admitted as refugees seeking political asylum under the same standards.

Senator Inouye: A number of Salvadoran refugees, who sought political asylum in the United States because they feared they would become the object of violence in El Salvador, have been returned to their homeland, apparently on the grounds that their extended families had not become the objects of violence and, therefore, their fears were unfounded. Apparently the same reasoning has been applied to Haitian refugees.

Will the same reasoning be applied to Cuban refugees?

Mr. Purcell: Cubans or others who are admitted to the United States as refugees are in a different legal situation than are persons from El Salvador, Haiti, or elsewhere who, after entering the United States illegally, apply for political asylum. Because of this they are subject to different requirements under law.

WELFARE DEPENDENCY

Senator Inouye: How will the expansion of the reception and placement program discourage "welfare dependency"?

Mr. Purcell: Increasing the responsibilities of the private voluntary agencies and providing them with sufficient funds to extend the period of income support will effectively preclude refugees from receiving public cash assistance for at least three months. During this period the voluntary agencies will be able to work with refugees to help them become self-sufficient by finding jobs. We share the voluntary agencies' belief that this added authority to guide refugees during their initial months in this country will result in earlier employment and a lower incidence of long-term dependency.

Senator Inouye: Do available statistics indicate that most refugees who have developed a welfare dependency first received welfare benefits within 90 days of admission?

Mr. Purcell: We do not have statistics which get at the precise point raised by this question. The issue here is more one of the timing of employment than it is the negative influence of welfare utilization per se. The Administration's intention is to emphasize the positive forces directing the refugee toward employment in the early stages when refugees are still learning a new set of social and cultural values.

Senator Inouye: Is there an equality or an observable difference in the percentage of refugees from one country who went on welfare as compared to those from another country?

Mr. Purcell: We do not keep statistics on the basis of national origin or ethnic group. Typically, when we discuss the difficulties of resettling refugees in a new country, we are thinking of the Indochinese, who have constituted upward of 75 per cent of refugee admissions during the past decade. Within the Indochinese category, there may be differences in employability, and hence in welfare utilization, based upon characteristics such as education, literacy, and occupational background.

Senator Inouye: In view of this finding, will you make a distinction when determining whether to cover "financial responsibility for all basic necessities for the refugee's first ninety days after admission"?

Mr. Purcell: We would not make any distinction in the 90-day responsibility for different groups of refugees. We would, however, encourage the voluntary agencies to use federal funds in varying amounts based upon the needs and circumstances of individual cases. In some instances, it will be appropriate to require a refugee to commence employment within his first month in the United States. In other cases, it is more appropriate to extend the period of income support while refugees are referred to language training and other services necessary to increase their employability.

QUESTIONS SUBMITTED BY SENATOR DECONCINI

ICM PROGRAMS IN LATIN AMERICA

Senator DeConcini: The Department of State has contracted with the International Committee for Migration (ICM) to provide refugee and displaced persons services in El Salvador. In addition to providing an airport reception service, ICM has opened a camp in Honduras to facilitate the return to El Salvador of Salvadorans not wishing to obtain refugee protection or remain in Honduras.

FUNDING FOR ICM PROGRAMS

Senator DeConcini: Have any State Department funds been used in this ICM project in Honduras?

Mr. Purcell: Yes, the Bureau for Refugee Programs has provided ICM with $200,000 from 1984 funds for the construction of a facility at La Esperanza, Honduras. This was originally conceived as a facility to assist Salvadorans who wished to transit Honduran territory from areas of conflict in El Salvador to travel to safe areas in El Salvador. It was also hoped that the facility would serve for later use in repatriations.

FY 1986 REQUEST FOR FUNDS?

Senator DeConcini: Have you asked for money in the 1986 appropriation?

Mr. Purcell: No, because it hasn't been necessary. The facility is a pilot program which we will monitor closely during 1985. If we consider further funding desirable, we would use Latin American assistance funds for this purpose.

USE OF PROGRAM

Senator DeConcini: How many Salvadorans have taken advantage of this ICM program? (Our information is very few)

Mr. Purcell: At the time that the Government of Honduras invited ICM to open this facility, approximately 1,800 to 2,000 Salvadorans had already transited Honduran territory. Shortly after the facility was constructed, the number of Salvadorans transiting Honduras fell markedly. Also, the UNHCR began to assist these Salvadorans. The possiblity still exists that this facility will be used for transportation of those Salvadoran choosing to repatriate from Honduras.

CONDITIONS FOR ACCEPTANCE

Senator DeConcini: What conditions must the Salvadoran accept before he or she is accepted for the program? (our information indicates that they must waive their right to participate in UN programs or accept UN protection in Honduras) If they must waive this right, for how long? How can they restore this right? How does the UN feel about this?

Mr. Purcell: The UNHCR retains its usual protection role for these Salvadorans. The UNHCR and ICM have reached a cooperative agreement regarding the use of La Esperanza. Refugees who choose to repatriate will be offered the choice of using this facility, UNHCR transportation, or their own means to return home.

PROGRAM FUTURE

Senator DeConcini: What plans are there to expand or encourage the use of this program?

Mr. Purcell: The Government of Honduras, the Government of El Salvador, and the UNHCR have engaged in preliminary discussions regarding voluntary repatriation. The use of this facility is a part of the discussions.

NEW REFUGEE COORDINATOR POSITION

Senator DeConcini: The Department of State has indicated plans to establish a refugee coordinator position in Honduras. Who requested this position?

Mr. Purcell: The Department of State is requesting this position because of the increasing importance and growing number of refugee-related issues in Central America. As refugee issues in this strategic area have continued to grow much more crucial and complex since 1982, we have concluded that it is necessary to station an officer in the region whose primary duties would be coordinating refugee assistance efforts, and that Honduras would be the most appropriate post for this officer. Participants in a Central American Refugee Conference sponsored by the Department in late 1984 strongly supported creating such a Regional Refugee Coordinator position.

Because of increasing refugee-related duties at all posts in the region, a member of the mission staff has been designated to serve as a part-time refugee affairs specialist. This unstatisfactory arrangement has had to suffice for lack of anything more permanent. In the past year, the Department has had to rely more and more heavily on these part-time refugee specialists in the region despite their other primary responsibilities. This situation should not be allowed to continue indefinitely, especially with the increasing number of refugees and refugee-related issues in Central America.

REFUGEE COORDINATOR DUTIES

Senator DeConcini: Since the U.S. accepted only 160 refugee applications from Latin America last year out of a quota under the Refugee Act of 1,000, what will this coordinator be doing?

Mr. Purcell: Because the United States recognizes the existence of a large refugee population in Central America, and consequently has funded the regional refugee assistance activities of the UNHCR, the ICRC, and other organizations for a number of years, a Refugee Coordinator for Central America would have broad responsibilities. The duties of the incumbent of this position would include:

- Reporting on the interaction between political and economic events and refugee issues in the region.
- Recommending policy initiatives concerning the range of possible solutions to refugee problems in Honduras, as well as in Mexico, Guatemala, El Salvador, Costa Rica, Nicaragua, and Panama.

- Acting as the principal mission link with the refugee agencies and officials of the Government of Honduras to explain U.S. policies and programs.

- Analyzing international the programs of the various refugee organizations in Central American, to include goals and objectives, structures, budgets, etc., and recommending appropriate levels of U.S. response.

- Coordinating with other diplomatic missions insofar as their activities and policies impact on refugee programs in Honduras and the area.

- Analyzing refugee projects proposed by private voluntary organizations or others, and recommending allocations of U.S. funding.

APPLICATIONS FROM CENTRAL AMERICA

Senator DeConcini: Do you expect to accept a lot more refugee applications next year from Latin America?

Mr. Purcell: Yes, because of the resumption of the refugee processing program in Cuba.

JUSTIFICATION FOR REQUEST

Senator DeConcini: Are you going to accept enough to justify an appropriation of $15,700,000 for refugee assistance?

Mr. Purcell: Yes. The Bureau will use the requested $15.7 million to support the regional refugee assistance programs of the UNHCR, the ICRC, and other international or private voluntary agencies, as appropriate. We contribute 25-30 percent of the funding for meeting relief needs in the region.

Of the $15.7 million, $12.5 million will support the UNHCR. $3.2 million will fund programs of the ICRC and, as required, other international or private voluntary organizations. The UNHCR will carry out care and maintenance, local settlement programs, and repatriation if approriate. The ICRC provides relief assistance and programs for political detainees.

WESTERN HEMISPHERE ADMISSIONS

Senator DeConcini: The refugee admission consultation ceiling for FY 85 for the Western Hemisphere is 3,000. The U.S. recently completed an agreement with Cuba to accept 3,000 political prisoners under our refugee resettlement program. What does this mean in terms of our accepting refugees from any other country in the Western Hemisphere?

Mr. Purcell: During the consultations with Congress for our 1985 admissions ceilings last fall, the Department of State anticipated the possibility of reaching an agreement with the

Government of Cuba. The Western Hemisphere ceiling of 3,000 thus was established in the hope that we could use up to that number for moving former Cuban political prisoners and their families out of Cuba.

This does not mean that deserving cases from other Latin American nations would not be considered for admission as refugees, provided they are of the first two processing priorities. As a result of a long-standing Latin American tradition of granting refuge in the region, however, most refugees do not require resettlement to the United States. It is worth noting that Latin American refugee admissions to the United States in FY 1984 numbered only 160.

Should conditions change, however, we would consult with Congress about any needs for increased admissions numbers.

BUREAU OF INTERNATIONAL NARCOTICS MATTERS

ANTITERRORISM ASSISTANCE

STATEMENT OF JON R. THOMAS, ASSISTANT SECRETARY, BUREAU OF INTERNATIONAL NARCOTICS MATTERS

ACCOMPANIED BY:

CLYDE TAYLOR, DEPUTY ASSISTANT SECRETARY
JIM VAN WERT, CONTROLLER, EXECUTIVE DIRECTOR

PREPARED STATEMENT

Senator SPECTER. We will now turn to the Honorable Jon R. Thomas, Assistant Secretary, and Clyde Taylor, Deputy Assistant Secretary, Bureau of International Narcotics Matters for the State Department.

I wonder if there would be any objection on your part, Mr. Thomas, on submitting your statement and going right to the questions?

Mr. THOMAS. Not at all. I think that is fine.

Senator SPECTER. You will be willing to do that?

Mr. THOMAS. Yes.

Senator SPECTER. We will be making your full statement part of the record.

[The statement follows:]

PREPARED STATEMENT OF JON R. THOMAS
ASSISTANT SECRETARY
BUREAU OF INTERNATIONAL NARCOTICS MATTERS

MR. CHAIRMAN:

On February 14, the Department of State submitted the International Narcotics Control Strategy Report for 1985 to Congress as required by P.L. 98-164. The report is prepared each year under the direction of our Bureau of International Narcotics Matters, and provides a country-by-country analysis of the narcotics situation.

The 1985 report shows that 1984 was a year of building bases for enhanced control programs and creating opportunities for large-scale actions in 1985. Genuine progress is reflected in the production reports on several countries, but there were some disappointments. I believe that, on balance, the events of 1984 put us on the threshhold of what should be our most productive year ever in narcotics control.

The INCSR emphasizes that, more than perhaps at any time in recent memory, there are strong incentives for source nations to act in their own interests to control narcotics trafficking. The international community is affected by narcotics trafficking and abuse, and the attendant violence, corruption and social costs which undermine legitimate businesses and threaten national security in many parts of the world. In some countries, insurgents and terrorist organizations have established links to narcotics traffickers and these groups are now sharing in the narcotics profits. Producing nations are experiencing abuse and addiction among their own youth, and the demand for treatment and prevention has increased in these source countries.

These concerns are prompting new opportunities. Source and victim nations alike have a common interest in the success of control programs, and source countries are realizing that they are first beneficiaries of programs to curb trafficking and all of its related excesses. This realization is reflected in the program expansion of 1984. It is reflected in the emerging alliance in Latin America, where national leaders are now beginning to work together, bilaterally and multilaterally, on regional approaches to control problems.

The report provides the following observations:

Opium production declined in Pakistan and Afghanistan, but marginally increased in other countries. Adverse weather and a new eradication program in Thailand, and a possible expanded crop eradication program in Burma, and continuation of the more effective sweep strategy in Mexico portend well for reductions in prospective opium poppy production in most sectors in 1985.

Coca production increased in Peru and Bolivia as anticipated, while holding about even in Colombia. But, Peru began to eradicate coca on an appreciable scale in 1984, despite terrorists attacks against eradication workers. Colombia is testing aerially sprayed herbicides which could offer the first real means of eradicating coca on a major scale. While Bolivia's economic and political problems are understood, its failure to begin coca eradication remains a major disappointment. We are hopeful that the deployment of police forces on February 3 into the Chapare and Cochabamba areas is the prelude to a sustained eradication campaign.

The most important marijuana development in 1984 was the Colombian eradication program which destroyed 4,000 hectares, including 3,000 hectares destroyed by an aerially applied herbicidal spray. Cannabis cultivation increased in Mexico, and the increase in Belize confirms traffickers' efforts to establish new sources of supply. Production probably held at about the 1983 level in Jamaica.

There are several 1985 goals set forth in the INCSR, including continued support for the Upper Huallaga Valley coca control project in Peru; seeking agreements to begin coca eradication in other parts of Peru; the restoration of law and order in Bolivia and an initiation of coca eradication; a vigorous Jamaica campaign to eradicate marijuana; resumption of aerial herbicidal eradication in Belize; expanded eradication programs in Burma and Thailand; continued efforts to increase the effectiveness of the Mexican control programs; suppression of opium cultivation and heroin trafficking in Pakistan; and a more effective interdiction effort in Southwest Asia including elimination of heroin labs.

We will advance our cause in 1985 through such programs. But, the long term strategy requires that there be a timely international effort, not just a United States program, and a high priority for our activity in 1985 is the enhancement of the response of the international community.

More than ever, international strategies in 1985 and beyond must give top priority to crop control -- bans on cultivation and production, enforced when necessary by eradication. An effective international strategy should offer financial and technical assistance where needed for narcotic control projects. The United States will continue to provide assistance, which should be linked to crop control agreements to ensure success in reducing production. But, donor assistance is only a part of the success equation. Governments of producing nations must demonstrate the political will to undertake effective crop control and interdiction programs. The corruption that has undermined control efforts in many source countries must be stamped out by strong and determined governments. The international community must make common cause in a more vigorous, more widespread, and more united effort to control international narcotics production and trafficking.

The FY 1986 Budget

With that background, I will address our proposed 1986 budget. this budget and our current funding are illustrated in the budget summary sheets attached to this testimony. The proposed FY 1986 budget is for $57.5 million, a 15 percent increase (or $7.3 million) over the FY 1985 request. The proposed budget continues the expansion of crop eradication programs, and builds upon the initiatives of 1984 and 1985.

Latin America: The proposed budget would increase funds for Latin America by nine percent, to $32.1 million, the largest budget element.

Particular attention continues to be focused upon Colombia which, in 1984, remained the largest supplier of marijuana to the United States, and the principal refining source for cocaine, but also was emerging as one of the most increasingly effective international control programs. Colombia may well eradicate the majority of its marijuana crop in 1985, thus giving the very real prospect of reducing availability from what has been the major marijuana resource to the United States. Colombia is also testing herbicides to be used against coca in an aerial spraying program, which would permit large-scale eradication.

On January 21, Peru redeployed its special narcotics unit into the Upper Huallaga Valley, thus permitting resumption of the coca eradication effort. On February 1, the UMOPAR also resumed its interdiction activities. The 1986 budget includes funds for creation of a second UMOPAR unit to be deployed in a second coca-producing region, while increasing eradication efforts in the Upper Huallaga Valley. The United States expects to see Peru proceed actively on two enforcement fronts, against terrorists and against narcotics traffickers.

The United States has been encouraged by the strong leadership of President de la Madrid, who has faced the needs for both a reinvigorated crop control program and a campaign to stamp out narcotics corruption in Mexico. New sweep campaigns are increasingly effective at destroying narcotics crops. The proposed 1986 budget will continue the expansion of the MAGO eradication fleet, and provide operational and ground support for fixed-wing aerial eradication aircraft being introduced into the fleet.

Due to continued delays in implementing the eradication and other projects anticipated in FY 1984, the 1986 budget request for Bolivia shows a decrease in requirements from the 1985 level; there will be sufficient pipeline funds to carry forward the expected effort in Bolivia.

There is need to counter the efforts of South American traffickers seeking new safehavens in countries like Brazil, Ecuador and Venezuela. A major increase is proposed for Brazil to support the eradication and interdiction efforts of the National Police against increasing coca and cannabis production, and cocaine trafficking.

The Latin American regional fund will be increased to provide augmented support and technical assistance to countries in the region; there are several initiatives related to Vice President Bush's discussions with Latin American presidents at Quito in August, and subsequent negotiations. These recognize the welcome development of regional cooperation, especially among key South American countries.

Southwest Asia: The FY 1986 budget request is $5.49 million, an 83 percent increase over 1985.

With solid pledges from the United States (USAID), United Kingdom, Italy and others for a special development and enforcement program, Pakistan is extending its increasingly effective opium ban into additional areas of the Northwest Frontier Province. Pakistan continues to be a major refiner of heroin, drawing on opium production in Afghanistan as well as its own stocks. A major increase is budgeted for 1986 for enforcement assistance to augment the number of interagency narcotics units deployed to interdict opium and heroin production and trafficking.

The budget also includes funds to continue programs in Turkey and to support the Southwest Asian regional initiative.

Southeast Asia. The FY 1986 request for Southeast Asia amounts to $10,200,000, a 26 percent increase.

Effective for many years at suppressing laboratories and narcotics warlords on its border with Burma, the Government of Thailand initiated a promising opium poppy eradication program in late 1984 that could lead to the eradication of several hundred hectares of opium poppy in 1985. A substantial budget increase is proposed for 1986 to support a significantly expanded poppy control program aimed at terminating illicit poppy production within five years, and to provide additional enforcement assistance to consolidate efforts along the Thai/Burma border, and also to support interdiction efforts.

Burma has been the largest illicit opium producer in recent years and the SRUB conducted a pilot aerial eradication project in late 1984, covering more than 160 acres. This test will hopefully lead to a more widespread aerial eradication effort in 1985. An increased budget for 1986 will permit a strengthening of the opium poppy eradication effort, by providing additional aircraft, and provide urgently needed equipment and training for the narcotics control activities of police and paramilitary forces.

Other Activities: INM funds training for foreign law enforcement officials, which is provided by DEA and/or U.S. Customs, at Federal training sites or in foreign countries.

Technical assistance in demand reduction is provided through a variety of channels, including direct INM assistance with a priority on aiding producer governments in controlling domestic demand and internal drug abuse problems. Other channels include support for regional and international demand reduction projects, participation in international agency programs and fora, provision of materials, conduct of special demand reduction training programs, and providing linkage between U.S. national and international demand reduction efforts. USIS officers in the field have been especially effective in public education efforts in source countries, and USIA/USIS are supporting the new public awareness seminars sponsored by INM.

There has been improved support of international narcotics control by the intelligence community. As part of an expanded data generation effort, INM will support aerial photography programs in 1985 in Pakistan, Thailand, Burma, Peru, Bolivia and Jamaica, and anticipates assisting Mexico and Colombia in aerial surveys.

International Organizations: Considerable diplomatic and program assistance coordination is conducted through international organizations, particularly organs of the United Nations. The United Nations Fund for Drug Abuse Control has been a major multilateral vehicle for enforcement, supply reduction, and demand reduction programs. Through UNFDAC, we finally have a European presence in our effort to curb cocaine production in Latin America. And, through UNFDAC, a number of nations are supporting a new program to eliminate poppy production in the major remaining growing areas of Pakistan. In FY 1986, funds are provided for UNFDAC and also for the Colombo Plan.

SUMMARY. In sum, Mr. Chairman, we believe we have a sound strategy, and it is not only working but increasingly effective. We are strongly challenged by logistics, economic self-interest, and, not least, by well-aimed criminal organizations increasingly willing to strike back, using terrorist tactics. There are Congressional reports which offer a conflicting view. We agree with some aspects of these reports, but note numerous inaccuracies as well. I think the salient aspect of these reports is that they virtually concede that there is really no alternative but to negotiate crop control programs that can be simultaneously effective in all growing regions. That, in fact, is the objective we have pursued. And, the data available show that this strategy is beginning to bring down production. Thank you.

FY 1986
International Narcotics Control Program

Fiscal Summary
($000)

	FY 1984 Actual	FY 1985 Request	FY 1986 Request
I. COUNTRY PROGRAM			
LATIN AMERICA			
Bolivia	$ 2,670	$ 5,500	$ 3,960
Brazil	0	250	750
Colombia	6,765	10,300	10,600
Ecuador	72	0	300
Mexico	8,318	8,900	10,100
Peru	2,805	3,500	4,350
Latin America Regional	1,755	1,000	2,000
TOTALS	22,385	29,450	32,060
EAST ASIA			
Burma	2,447	5,000	6,000
Thailand	3,005	2,800	3,900
East Asia Regional	170	300	300
TOTALS	5,622	8,100	10,200
SOUTHWEST ASIA			
Pakistan	3,350	2,000	4,470
Turkey	1,000	900	920
Southwest Asia Regional	85	100	100
TOTALS	4,435	3,000	5,490
TOTAL COUNTRY PROGRAMS	32,442	40,550	47,750

FY 1986
International Narcotics Control Program

Fiscal Summary
($000)

	FY 1984 Actual	FY 1985 Request	FY 1986 Request
II. INTERNATIONAL ORGANIZATIONS			
UN Fund for Drug Abuse Control	$ 2,500	$ 2,742	$ 2,825
Colombo Plan	75	75	75
TOTAL	2,575	2,817	2,900
III. INTER-REGIONAL PROGRAMS			
Demand Reduction	400	400	400
DEA Training	1,990	2,200	2,320
Customs Training	1,020	1,150	1,230
INM EOP Training	190	300	300
TOTAL	3,600	4,050	4,250
IV. PROGRAM DEVELOPMENT AND SUPPORT	2,524	2,800	2,629
TOTAL INM PROGRAM	* 41,141	50,217	57,529

* The President's Budget and Treasury Reports reflect $41,046,000 in obligations. Amounts reflected in this budget include actual obligations made but not reported in time for inclusion in those various reports.

CUTOFFS OF ASSISTANCE

Senator SPECTER. Mr. Thomas, I would like to begin the questioning with really what I consider to be the central question, one that I have asked Secretary of State Shultz about when he appeared before the Foreign Operations Subcommittee a week ago today.

The Foreign Assistance Act calls for—gives the President authority to cut off foreign aid to any drug-producing country which has made inadequate progress in reducing its drug problems. I note among the major sources of drug production last year, that seven have increased their production of drugs, Thailand, Peru, Mexico, Colombia, Burma, Bolivia, and Belize.

My question is: Why not, in one or more of these situations, both on substantive grounds and as an example, cut off or reduce foreign aid to one or more of these countries?

Mr. THOMAS. First of all, Senator, some of the increased production figures are in part based on improved estimation techniques of ours. That is not to underestimate the importance of the issue. There has been increased production in some countries.

Secretary Shultz has stated before, and I support him very strongly in that statement, that we certainly should be prepared to link assistance to a country's control efforts.

But at this time, we do not feel, taking into consideration existing legislation, that we should suspend assistance to any narcotics producing country. We feel that such assistance could be valuable in furthering our narcotics control objectives.

REASONS FOR RECOMMENDATION FOR CUTOFF OF AID

Senator SPECTER. What are the criteria? When would you recommend cut off or reduction?

Mr. THOMAS. A recommendation of that type to the President would be based on a whole range of criteria, including a country's specific steps—"adequate steps" is what the legislation uses as its criteria—the political and economic condition of a country; whether or not a country has control over its growing regions, which is not the case in some of the countries; and, whether a suspension of assistance would be likely to lead to narcotics control or not.

Senator SPECTER. Has aid ever been cut off from any country under authorization under which the President can cut off aid to a country that has made inadequate progress in reducing its drug problems?

Mr. THOMAS. To my knowledge that particular piece of legislation has never been invoked, but in the case of Bolivia, assistance was frozen in 1980 during the Garcia Meza regime which was definitely linked to narcotics as well as human rights violations. There was also linkage made in late 1982 when the issue of unfreezing some of those funds was considered.

Senator DECONCINI. I think that, if the Senator would yield for just a moment, my recollection is that Congress froze that and not the administration.

Mr. THOMAS. That is not my recollection but you may be right.

Senator DECONCINI. You may be right. Thank you.

MEXICAN NARCOTICS POLICY

Senator SPECTER. With respect to the current incident in Mexico, I know that Secretary of State Shultz has met with ranking Mexican officials and there has been considerable consternation, to put it mildly, with the Mexican response quoting that the murder involving a U.S. agent was just a "police matter."

Why not use a provision of this law to show our concern, our anger, our disgust, with what is happening in terms of Mexican cooperation? Is that not a very important matter?

Mr. THOMAS. I was a participant in those meetings with the Mexican foreign minister. I think some of the press coverage may be accurate concerning statements that he may have made following the meeting. But there was no agreement at those meetings that would imply that narcotics control was a police matter.

Rather, I think, Secretary Shultz made it very clear, in a firm, convincing way, that we see this as a very important bilateral foreign policy issue with the Government of Mexico, that we very much would like to see the Mexican Government take the necessary steps, not only to solve the Camarena case but to insure the rebuilding of the narcotics control program.

Senator SPECTER. Was there anyone in the Mexican Government who characterized the matter as merely a "police matter"?

Mr. THOMAS. I think that may have been the statement, quotation, made by the foreign minister following the meeting in one of the press conferences.

STRONGER RESPONSE FROM UNITED STATES NEEDED

Senator SPECTER. Well, that being so, that certainly doesn't place the kind of emphasis on the murder of a U.S. narcotics agent. There is really nothing more sacred in the effectuation of any kind of a policy than law enforcement officers in the field.

You are looking at three men on this particular panel, all of whom come from the prosecutor's desk, all of whom have sent detectives and police officers into the field and all whom have the highest regard for the day-in/day-out work which we have done in Pennsylvania, Vermont, and Arizona on fighting crime, drug traffickers and organizers.

When you touch the law enforcement officials themselves, it isn't a chilling matter, it is a devastating matter. It is just hard to do the job. It takes an inordinate amount of courage to do it with all sorts of backing. To have the ranking foreign official talk about it as a police matter really reduces it, in fact, trivializes it.

Doesn't it call for some stronger response from the United States?

Mr. THOMAS. I think the response from the United States, not only from the enforcement community, but from Secretary Shultz, who said recently that certainly the Mexican activities in this regard have not been satisfactory, that message has been delivered to the highest levels of the Mexican Government on a number of opportunities.

Not to take the other side of the issue, but I would add that the Mexican eradication program, over the last 10 years, has been reasonably effective in reducing the amount of narcotics coming from that country. The Mexicans have taken a number of casualties in that narcotics control effort, not only among law enforcement officers but among pilots and aircraft crew.

We very much want to see the Mexican program, the narcotics campaign, become once again as effective as it was. It benefits our country. It benefits our interests. I think that that message was made very clear by Secretary Shultz in those meetings, and I think that message will continue to be made to the Mexican Government.

We believe that the assurances from President De La Madrid are real, that he will do whatever he can to attack the corruption in the programs, to bring to a resolution the matter of the Camarena assassination.

Senator SPECTER. Mr. Thomas, I have great respect for Secretary Shultz' ability to deliver a stern message, but I have doubts as to how it was received.

MEXICAN ERADICATION PROGRAM

Senator DECONCINI. Mr. Chairman, when was it effective in Mexico, in your opinion? Could you ask that question?

Senator SPECTER. Consider it asked.

Senator DECONCINI. You said that you wanted to get it back to when it was "effective." When was that?

Mr. THOMAS. In 1975, approximately 87 percent of the heroin consumed in this country came from Mexico.

Senator DECONCINI. Right.

Mr. THOMAS. The majority of the marijuana also came from Mexico. When the Mexican Government initiated a spray program with U.S. assistance, the amount of heroin coming from Mexico, after a few years of operation of that campaign, was reduced from approximately 6.5 tons of pure heroin, down to slightly over 1 ton.

Senator DECONCINI. That was a couple, 3 years after 1975?

Mr. THOMAS. Yes.

Senator DECONCINI. 1978 or 1979.

Mr. THOMAS. The amount of heroin coming from Mexico basically remained the same and has been creeping up over the last few years.

Senator DECONCINI. What is it now?

Mr. THOMAS. We estimate it is approximately 1.7 tons, representing somewhere between 33 and 38 percent of the total consumed in the United States.

Recently, of course, we were very concerned with the discovery of a very large marijuana cultivation and transportation operation. We had not been aware that the marijuana cultivation was back to that degree. We certainly have expressed that concern to the Mexican Government. We are trying to add elements to the narcotics program, including independent verification systems to try to establish better control over what is being produced.

SANCTIONS

Senator SPECTER. Mr. Thomas, a final comment on my part before I yield to Senator Leahy. I must depart to some problems. I would just suggest, speaking for myself, that your unit ought to give serious consideration, at least an example, to find the worst of the offenders.

I think there are some areas, where we can show our teeth, really, and try to have some deterence in trying to carry out this kind of a policy. I think it is among all the countries involved, that you have been through this. It would at least be worth a try. The objective is to say what is the most effective to discourage the flow of drugs into this country.

This is one weapon at your disposal. It seems to me that there should be some occasion where it would be appropriate to use it.

Mr. THOMAS. Well, Senator, let me assure you that we understand the seriousness that Congress attaches to this issue. I have talked with many Senators and Congressmen on both sides of the aisle. I always get the same message. I understand the sincerity of that statement.

I would add that that legislation does provide a tool, that if we felt it were necessary, and would serve our Nation's interests, we would certainly consider suspension of assistance.

STATE DEPARTMENT PROGRAMS

Senator SPECTER. Senator Leahy.

Senator LEAHY. Thank you, Mr. Chairman. I would like to understand how this works. Give me a specific instance, say in the last 4 or 5 years, where the State Department's programs have led to a measureable decrease in the export of narcotics, say, from Pakistan?

Mr. THOMAS. All right. Let me cite two examples. Pakistan in one part of the world, we are dealing with a certain type of drug. And then Colombia——

PAKISTAN

Senator LEAHY. Let's take Pakistan first. I'll get to Colombia later.

Mr. THOMAS. All right. In 1979, some 800 tons of opium were being produced in Pakistan, providing the vast majority of the opium produced in the region. Following certain steps that the Government of Pakistan took, in crop control and in forcing the bans on production, that production is now in the range of 45 to 50 tons.

The majority of the remaining production is in the northwest frontier province. With a large scale project going into place now, called the "Special Development Enforcement Plan," we estimate that the remaining pockets of opium production will be eliminated.

Senator LEAHY. In 1979, how much heroin came to the United States from Pakistan?

Mr. THOMAS. I would say well over 50 percent.

Senator LEAHY. How many tons is that?

Mr. Thomas. That would be approximately 2 tons coming into the United States.

Senator Leahy. OK. And today, coming from Pakistan, how many tons?

Mr. Thomas. Not saying Pakistan but from Southwest Asia——

Senator Leahy. No, Pakistan. Let's stick with Pakistan. I have some questions concerning other parts of the world. Let's use Pakistan. We had 2 tons coming from Pakistan in 1979.

Mr. Thomas. We had 2 tons coming from Southwest Asia in 1979.

Senator Leahy. You do not know now much from Pakistan?

Mr. Thomas. It is not easy. Opium is a fungible product. We do not know exactly how much of the opium produced in Pakistan comes to market as opposed to Afghanistan and Iran.

Senator Leahy. But you are able to tell that there are 2 tons from that part of the world?

Mr. Thomas. Basically.

Senator Leahy. But you don't know how much from Pakistan?

Mr. Thomas. We do know from crop estimates it was 800 tons total. It is down to 45 tons now produced in Pakistan. We do know that the majority of heroin coming out of Southwest Asia is not Pakistan opium, but rather opium produced in Afghanistan or elsewhere. Much of it, however, is refined into heroin in Pakistan. That has produced a new enforcement problem for us.

EFFECTIVE PROGRAMS AGAINST HEROIN TRAFFIC

Senator Leahy. What I am trying to find out is which programs are effective in stopping the traffic of heroin into the United States from these countries. I assume that the State Department would be responsible for whatever programs there may be in Iran and Afghanistan today. That is not a trick question.

Mr. Thomas. It is safe to say that we don't have any narcotic control programs in Afghanistan or Iran.

Senator Leahy. And whatever programs they may have would be independent of cooperation on the part of the United States?

Mr. Thomas. Yes.

Senator Leahy. OK. Going back again to Pakistan, where we do have some influence, do you have any way of estimating, over each of, say, the last 5 years, how much heroin has come from Pakistan to the United States?

Mr. Thomas. I would say it is probably down.

Senator Leahy. Probably.

Mr. Thomas. Based on the opium reductions in Pakistan, I would say that the amount of heroin coming through Pakistan, being produced and refined in Pakistan, has dropped.

Senator Leahy. Is that because Pakistan has taken steps of its own or is it because steps have been taken against either Afghan or Iranian sources of supply to manufacturers in Pakistan?

Mr. THOMAS. I believe that a large part is due to the crop control taken in Pakistan. They have also suffered another phenomenon. There is increasing heroin addiction among their own population. There is a considerable amount of heroin produced in that region.

Senator LEAHY. That is not a program that the State Department would take credit for, I assume.

Mr. THOMAS. That is not a program that we would care to take credit for. It is a real situation that we concern ourselves about.

PROGRAMS EFFECTIVE IN SLOWING MOVEMENT OF HEROIN

Senator LEAHY. I understand. Now, tell me again, specifically what State Department programs have slowed heroin coming from Pakistan into the United States? Have we cut back the amount of heroin coming into the United States?

Mr. THOMAS. Well, as I said, I certainly consider the reduction from 800 to 45 tons a considerable achievement. I consider the crackdown on heroin laboratories——

Senator LEAHY. Wait a minute. I think we are missing the point. I understand what you say about the achievement, but your testimony, unless I misunderstood you, is that you are not sure how much of a reduction in heroin production there has been from Pakistan.

I am mostly concerned, quite frankly, with how much heroin is coming into the United States and is being used on our streets and by U.S. citizens.

My specific question was what was the reduction in the amount of heroin coming from Pakistan to the United States during the past 5 years? My understanding of your answer was that you are not sure but you think there has been a reduction.

Mr. THOMAS. I can say there has been an overall reduction from Southwest Asia down to about 48 percent, but I cannot give you specific percentages nor, if they were available, would I say that they were highly unreliable, because I think the Senator can understand how difficult it is to come up with these types of statistics.

Senator LEAHY. I do. But the point is that we are being asked to fund, as the Appropriations Committee, various programs. I am trying to find out which programs are the most effective.

The wars in Iran and Afghanistan are partly responsible for the reduction. That is something out of our control. There is heroin addiction in Pakistan. That is also out of our control. However, is there a specific program that we fund that is actually effective in cutting back the amount of heroin? That, we all agree, is what we want to do. You and I and everybody else are agreed. That would be a program worthy of funding.

Again, tell me just which programs the U.S. Congress has appropriated money for, in Pakistan under the aegis of the State Department, that have been effective.

CROP CONTROL METHODS

Mr. THOMAS. The crop control methods have been largely funded by the U.S. Government. The enforcement efforts in the northwest frontier province designed to keep opium from coming into Pakistan, as well as cracking down on the heroin laboratories, have been assisted by U.S. funding. Without U.S. funding, I doubt we would have seen the kinds of crop reduction or enforcement that we have in Pakistan.

Although I can't give you the specific figures in reduction, I think that reduction would have to be considerable. There is no doubt in my mind that increased enforcement presence, as well as crop reduction, has changed the routes that narcotics traffickers and producers are using in the region.

So I would say that much of it is not coming in from Pakistan. But I cannot give you specific numbers.

THAILAND

Senator LEAHY. How about Thailand? Have we had U.S. sponsored programs that have been effective in Thailand in cutting the amount of heroin coming into the United States?

Mr. THOMAS. The amount of opium production in Thailand has decreased somewhat over the years, although there is a modest increase this year. I think that our assistance to the Thai enforcement effort on the Thai/Burma border has been very effective in reducing the amount of heroin moving through that area as well as opium production. We now see some progress in Thailand, some eradication of opium fields.

Senator LEAHY. Opium production was up this past year?

Mr. THOMAS. In a modest way. We are talking about a few tons.

Senator LEAHY. If there has been some eradication, why has production increased, just a good growing year?

Mr. THOMAS. That is part of it. You can have a change. One year will be dry, the next year better.

On the other hand, I will say, Senator, although we are pleased with what the Government of Thailand has been able to do, we are looking to them to do more in the crop control and reduction area, and our funding package is specifically designed to do that.

Senator Leahy, How much is that package?

Mr. THOMAS. We are talking $1.6 million and something for crop control development activities.

BURMA

Senator LEAHY. What about Burma?

Mr. THOMAS. $3.9 million for Thailand. For Burma, we are asking $6 million for fiscal year 1986. We have been successful in cutting down the amount of opium and heroin coming out of Burma headed toward the United States.

The Burmese have been able to—we estimate production in Burma as around 600 tons of opium. We estimate that the Burmese manual eradication operation eradicates somewhere over 10 percent of that. The Burmese, however, this year——

Senator LEAHY. Ten percent is not that much. I mean, 10 percent could be wasted in shipment, correct?

Mr. THOMAS. However, a large part of it is the difficulty of the operations that they run. As you may know, the Burmese communist party and other insurgents control most of the opium producing regions.

The Burmese this year, as we cited in our testimony, however, have tested the herbicide spraying against opium. We expect, and would hope, that would be expanded into a comprehensive program this coming year, which I think will result in a dramatic increase in the reduction of the opium production in that country.

Senator Leahy, They have been the largest illicit opium producer in recent years, is that correct?

Mr. THOMAS. Yes.

Senator LEAHY. Do you have any real hope that their government is going to be more helpful than they have been in the past?

Mr. THOMAS. I think with the new eradication techniques they will be much more effective.

Senator LEAHY. Do you think they will?

Mr. THOMAS. Yes.

MEXICAN HEROIN

Senator LEAHY. You touched earlier on the situation in Mexico. Is opium or heroin, either one, coming out of Mexico to the United States?

Mr. THOMAS. Somewhere around a third or so of the heroin consumed in this country comes from Mexico. Our previous estimates for marijuana from Mexico were somewhere in the range of 8 to 10 percent.

Senator LEAHY. During the past 5 years has the actual tonnage of opium or heroin from Mexico gone up or down?

Mr. THOMAS. In the last 5 years it has basically stabilized after the very significant reductions we talked about in the late 1970's.

Senator LEAHY. So since then it has just stayed the same. There has been no improvement since the late 1970's.

Mr. THOMAS. I think that the Mexican Government has been waging a sort of tit-for-tat war with the narcotics producers. They change their tactics, the Mexican Government adopts theirs.

Senator LEAHY. The same with marijuana?

Mr. THOMAS. Yes.

Senator LEAHY. Unless holding our own is equated with success, you can't point to any success in Mexico?

Mr. THOMAS. I would rather equate success with continued crop reduction. I think holding our own under these circumstances is at least partial success.

JAMAICA

Senator LEAHY. All right. Jamaica.

Mr. THOMAS. Jamaica has been, traditionally, the second largest marijuana supplier to the United States over the last number of years. Now that Colombia is dealing with their problem more effectively, Jamaica is more important.

The government has taken steps within Jamaica to crack down on narcotics trafficking, tightening up on clandestine airstrips, or interdiction measures. We understand that this year they have manually eradicated twice as much ganja or marijuana in the last quarter as they did in the previous year, and we hope that this pace of eradication would continue.

PERU

Senator LEAHY. Peru.

Mr. THOMAS. Peru is a difficult country with a situation of coca production. We have a project in Peru in the upper Huallaga Valley operating under difficult conditions. Nineteen of the Peruvian coca production employees were massacred in the past year. There was other related violence.

We eradicated 3,000 hectares of coca last year under those circumstances. We expect to double that amount this year. Our target goal is 6,000 hectares. Last week I met with the Peruvian Government. They assured me that was a very realistic goal.

PREPARED STATEMENT

Senator LEAHY. I want to put a statement in the record at this point. The statement will amplify my remarks.

[The statement follows:]

PREPARED STATEMENT OF SENATOR LEAHY

IMPROVING NARCOTICS INTELLIGENCE

Mr. Chairman, I also want to indicate that in addition to my work on this subcommittee, as vice chairman of the Intelligence Committee I also intend to review the adequacy of our intelligence resources committed to the international narcotics problem. There has long been reluctance by military and intelligence agencies to become fully involved in the war against narcotics. These agencies have feared that they would be diverted from what they regard as higher priority missions or even potentially suffer loss of the quality of their operations and personnel through contact with narcotics problems. Unfortunately it appears that some in the Department of Defense prefer training exercises to actual accomplishments.

We must enlist all our national resources against international narcotics traffic. This effort must include our military and intelligence agencies. Our intelligence agencies can provide valuable information—obtainable from other sources—about the activities of international narcotics traffickers abroad. The military, including military intelligence components, have unique capabilities to conduct technical surveillance of traffickers' activities in the air and water off our coasts. Military cooperation in the fight against narcotics traffic is authorized under the Posse Comitatus Act.

I will do all I can to see that these resources are effectively applied against international narcotics problems—that antinarcotics programs of the military and intelligence agencies are adequately supported, well-organized, and accorded due recognition and high priority. The Intelligence Committee will continue to monitor these activities during the current Congress. In this respect, I intend to carry on the valuable work in this area previously performed by Senator Biden when he served on the committee.

DOD COOPERATION

Senator LEAHY. One of the things I am very concerned about, not only as a member of the Appropriations Committee but as vice chairman of the Intelligence Committee, is what we can do to close our borders to illicit drugs coming in here?

Do you think you are getting adequate cooperation from the Department of Defense?

Mr. THOMAS. Yes; I believe, first of all, with the use of AWACS-type surveillance, I think the increased interdiction efforts have been very valuable in assisting our international programs.

Our national strategy is not focused on one area, one part of that chain, but rather the complete chain. I think that the stepped up interdiction efforts, using the military, beefed up customs enforcement, have been increasingly effective. I am satisfied with it.

Senator LEAHY. Would you be surprised if I told you that a number of the drug enforcement people say they just can't believe how little help they get from the Department of Defense, and how much they have had to fight to get that help?

Mr. THOMAS. I know there were some debates early on in the Reagan administration as to the role of the military. I am not quite sure just how much the military can and should do. It is not a question we have really looked at.

USE OF AWACS-TYPE PLANES

Senator LEAHY. Would you be surprised if I told you that some have told me privately that it is an awful lot easier in an AWACS-type plane, or whatever they are using, to run their computer training courses, than to have them out there trying to spot planes, because of the embarrassment of some getting through?

Mr. THOMAS. I believe that anything we can do to increase our interdiction would be helpful to our efforts. We have been supportive of any program that will make it more difficult to bring drugs into this country.

DOD ASSISTANCE

Senator LEAHY. Am I correct in understanding your testimony that you are satisfied that the Department of Defense has done all that they can do?

Mr. THOMAS. I think my testimony would say that I have been working with the Department of Defense. They have certainly been very helpful to me in the Department of State when we called on their resources for assistance.

Senator LEAHY. It is certainly the feeling—and I wish I had more of the members of the committee here so you could hear it from both sides of the aisle, the Senators here—and a Senator can correct me if he wants to say otherwise—virtually every Senator from both parties feel that the cooperation leaves a lot to be desired.

It is almost like the old days when then Director of the FBI, Mr. Hoover, didn't want his FBI agents getting involved in drugs. He didn't want to admit there was organized crime. They might get sullied by going after either one.

You know the Department of Defense. They are out to protect us against a Soviet attack so they can't get involved with heroin coming in.

As a member of the Intelligence Committee I don't want to give away any secrets by saying that the Soviets aren't going to attack today, but I think it is no secret that there are drugs on the way into the United States today and yesterday and tomorrow and the day before. Anybody walking down the street can tell you that.

I really don't think there has been adequate cooperation. I really don't. I think if I were one of the law enforcement people that had to be out there trying to nab these people, I would be frustrated as hell. I would begin to wonder just on whose side some of these agencies are.

I have looked at some of these drug enforcement people, who have to just about provide their own means of getting around, who oftentimes are operating under all kinds of restraints, who know that these planes are flying around out there, that ships are moving out there. They have all this sophisticated equipment, but they can't get plugged into the loop.

Well, right now, I don't discount the threats that we constantly face from the Soviet Union but one of the greatest threats we face right now is the amount of drugs coming into this country. It is a cancer. It is a cancer eating at every age group, every social and economic category.

I can walk out of the Nation's Capital and in a matter of minutes, in any direction, find the problem of heroin addiction and the sale of drugs. I don't want to pick on the District of Columbia. You can do the same thing in New York City or in Boston or just about any major city in the country. There is no State in the union that is free of it.

I appreciate your statement. You can certainly go back and make sure it comes across on the record just the way you want it to be.

But I don't think there is adequate cooperation. I don't think we are beginning to use the enormous resources that we have. We are the most powerful nation in the world.

I realize we operate under the strictures of a free society. I wouldn't want those to change, but I cannot believe that with all our power, we have to allow the amount of drugs coming into this country. I really can't accept it. I really can't.

OTHER COOPERATION

Mr. THOMAS. May I make a comment on my views of some of the cooperation, a little bit beyond just the Defense Department?

Senator LEAHY. Yes.

Mr. THOMAS. I would add that 1 week ago, we held a regional western hemisphere conference in Panama. All the narcotic enforcement agencies were involved from Washington, our agency, from this country. The Defense Department was very well represented, represented by the SOUTHCOM commander.

We discussed a number of initiatives. We discussed DOD resources which I can't get into specifically here. But, overall, I do think there is cooperation. I wouldn't want to say that more could not be done in that area. I think our position is that we are always looking for more to be done. I couldn't agree with you more that the importance of the issue is such that we should put what is necessary into it.

Our focus, of course, is on reducing the supply at the source. I would hope that we might have a moment or two to discuss Colombia.

COLOMBIA

Senator Leahy. Go ahead.

Mr. Thomas. I think what we have seen in Colombia over the last 2 years, the progress made in that country on crop control as well as narcotic enforcement is, in fact, a very real success story, a success story that the U.S. Government has had a very great deal to do with, although it has been the decision of the Colombian Government and the people to go ahead with these programs.

Colombia has been the primary supplier of marijuana to this country. It is the primary refiner of cocaine that enters this country. This year Colombia began to spray marijuana on the coast. They eliminated some 5,000 acres. I expect that this coming year Colombia will destroy the majority of its marijuana harvest.

INCIDENT WITH COLOMBIAN AIRLINER

Senator Leahy. What has happened to the Colombian airliner that was seized? Have we given that back?

Mr. Thomas. As I understand it there was a bond, U.S. customs is in possession of their air-operating certificate.

Senator Leahy. Do you think that kind of pressure is good, arresting the chief minister?

Mr. Thomas. I think seizing aircraft and arresting narcotics traffickers coming from any country, including our own is the only way of doing it.

Senator Leahy. We have found illegal drugs in one Avianca airplane. We have seized one.

Mr. Thomas. I know that U.S. customs—I am not defending Avianca by any means or the Gran Colombian which is also cited as a cocaine smuggling vessel, but I am sure we find cocaine and heroin on U.S. carriers as well.

DRUG CZAR

Senator Leahy. A number of us got together and passed a piece of bipartisan legislation to try to force coordination, even if it is done for only a period of time. I don't care if it is sunsetted after 5 years or whatever. The President chose—for whatever reason—to veto that.

You may want to look at that again. We are not doing enough. I am not questioning you on this. I am sure no one will stand up and say, "I am in favor of drugs." We are against drugs, and we are against crime. We are against bad people. We are willing to stand up and take that position no matter who might disagree with us. There is nothing very courageous in that.

I am interested in somebody that will do something about it. Here and in the Judiciary Committee, I have had briefings up to here, where 50 people from the State Department and the Defense Department have come in carrying their briefcases. I am sure they are very concerned about it.

I look at all the people in the room and I think, "My God, if we just had some of these people out there trying to catch some of those drug people, we would be a lot better off."

Mr. THOMAS. Some of us have been out there.

Senator LEAHY. Some of you have been out there. And it is a dangerous thing. Other people go out there and run the risk of getting shot at.

From twice having someone try to kill me when I was a prosecutor and having them shoot at me, I agree with Winston Churchill, "There is nothing more invigorating than to be shot at and missed."

I can't think of anything that would focus your attention more than waiting for that second shot to come around. Having been in that situation with people who are nowhere near as professional as the people our agents have to go up against, I commend them very much.

Again what I am saying is, "Let's review very carefully." I will hear in the Judiciary Committee, and in the Intelligence Committee, whether there is adequate coordination.

Mr. THOMAS. Senator, may I make a comment?

Senator LEAHY. Sure.

Mr. THOMAS. It is my understanding, although it may not be labeled as a drug czar that, in fact, Congress did pass a bill seeking enhanced coordination, a bill which establishes a drug enforcement policy board which the Attorney General of this country will chair.

It will be a cabinet level board. The first meeting, I understand, will be in April. It is designed to serve both as a policy coordinating board as well as a board to report on and monitor implementation of that policy, and overall coordination. I have been part of that coordination. It has worked well.

I would also cite that many people who have been involved with this issue over the years find that the existing coordination of the law enforcement agencies, as well as the Department of State and others is the best they have ever seen. It is certainly very good in my opinion.

U.S. ACTIONS TO CURB DRUG TRAFFIC

Senator LEAHY. Well, believe me, you will find that everybody up here is willing to support whatever steps you take. Again, nobody is suggesting that we throw the U.S. Constitution out the window, or that we are no longer the open country that we fought a revolution to become, and spent 200 years of history to develop. We are not going to do that.

I think we are going to say, "We are a powerful country and we are going to protect our interests. This happens to be our interest internally as well as externally. We are going to take whatever steps are necessary."

I think you are going to find that the Congress is going to start cutting foreign aid and a number of other things. It is going to start a Fortress-America attitude toward some of these countries if the drugs don't stop.

Short of actually declaring war on us, I don't know what else they could do to us.

I will talk later about the domestic internal problem, when we have the Director of the FBI and some of the other witnesses before us.

SUBMITTED QUESTIONS

The committee will have additional questions which we will submit to you for your response. They will be inserted at this point in the record.

[The following questions were not asked at the hearing but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR KASTEN

AVIANCA DRUG SMUGGLING

Senator Kasten: Illegal drugs have been found on 34 Avianca planes -- the Colombia airplane.

Can you tell us what steps the U.S. Government and the Colombia Government are taking to ensure that Avianca will not be used as a carrier of illicit drugs?

Mr. Thomas: Since the February 15 seizure of an Avianca 747 aircraft, the airline and the Government of Colombia have asked the U.S. Customs Service for technical assistance in improving aircraft and cargo security to prevent further incidents. The Customs Service has offered to hold technical discussions with the airline and these have been scheduled tentatively in late April. The Colombian side is quite interested in technical help from Customs; both the airline and the Government have expressed concern that further incidents, which could lead to additional aircraft seizures, could seriously damage the airline financially as well as damage the continued export of cut flowers by air to the U.S.

CONSOLIDATION OF VARIOUS DRUG AGENCIES

Senator Kasten: Your Agency, the Drug Enforcement Agency, Customs, the Justice Department, the F.B.I., the I.R.S., the Alcohol, Tobacco, and Firearms Agency, and the Coast Guard, and I am sure I have left some out, are all Federal Agencies which have some responsibility in one fashion or another over narcotics control.

Despite the public stance that your agency and others take that there is good coordination, across the board we are told, in private, that such cooperation does not exist.

It doesn't seem to me that we are winning the war against drugs in this country, and frankly, I don't know how we can with such a scattering of responsibility.

Why doesn't the Administration propose that all of these various activities be housed under one office to more effectively combat the drug problem?

Mr. Thomas: Solving the drug abuse problem in the United States requires the legislative authorities and functional expertise of several agencies; the Federal Strategy recognizes this reality by planning diverse activities in the areas of domestic and international investigations, interdiction, crop control, rural development, political consensus building; treatment and rehabilitation, education and prevention, research, etc.

In the control sector, there are programs operated in conjunction with foreign governments which call for the special expertise of the Department of State, the Drug Enforcement Administration, the Criminal Division of Justice, Customs, the Immigration and Naturalization Service, etc.

There have been several mechanisms employed to effect coordination, including two Cabinet Councils, as well as the National Narcotics Border Interdiction System, the Attorney General's regional task forces, the Drug Abuse Policy Office in the White House, and, not least, formal and semi-formal liaison mechanisms involving numerous agencies. We think these efforts have been productive.

Congress has required the Administration to establish a Drug Enforcement Policy Board, under the chairmanship of the Attorney General, which will have certain jurisdiction in both domestic and international narcotics enforcement. Plans are well under way to establish and implement this board, starting with a policy-level meeting on April 24.

We believe, in sum, we have achieved a very high level of coordination and inter-agency cooperation during this Administration and we are constantly seeking to improve that performance.

BURMA POPPY ERADICATION PROGRAM

Senator Kasten: In your justification material you state that "Burma has been the largest illicit opium producer in recent years..." and that they "conducted a pilot aerial eradication project in late 1984, covering more than 160 hectares. We hope this leads to a widespread effort in 1985."

You also say in your statement that because of a combination of factors there is hope for decreased opium production. However you mention "a possible expanded crop eradication program in Burma...".

You are requesting $6 million in FY 1986 for Burma, $1 million more than in FY 1985. Your statements about progress in Burma sound tentative at best. Before we commit to an increase for Burma, shouldn't we be more positive about that Government's commitment?

Mr. Thomas: The answers are deliberately couched in terms of possibilities because the Government of the Socialist Republic of the Union of Burma has chosen not to make its well-considered plans public. The United States has discussed these plans with the Burmese and made commitments to assist the Burmese in a comprehensive eradication program.

There is a genuine prospect for large-scale poppy eradication in the communist and insurgent controlled growing areas. A program of the magnitude under discussion could make a significant difference in Golden Triangle opium production; yet, since the plans are still in their incipient stage, we do not wish to jeopardize this success by a premature disclosure. We can, however, share with you the broad outlines of INM's participation in the program. In December 1984, we provided a Thrush spray aircraft to conduct test spraying in Burma. After evaluating the results of the test, the Burmese decided to proceed with a larger eradication program for the 1985/86 crop year. Current plans call for INM to provide two additional Thrush aircraft, pilot and mechanic training, and other supplies and equipment necessary for spraying. The Burmese government will provide pilots and other personnel, other aircraft to support the spraying, and will select the areas to be sprayed. To help the Burmese government determine with more accuracy the location and extent of the opium crops, we are also helping them procure a large-format aerial camera.

Since there has never been extensive spraying in Burma, we cannot predict how much acreage will be sprayed. We do expect that spraying will be expanded as experience is gained and could very well have a significant effect on Burmese opium production. It would be most unrealistic, however, to expect that this program will in the near future eliminate or even substantially reduce the export of heroin from the Golden Triangle. Rather, this program represents a promising start toward the ultimate objective of reducing opium and heroin production in the area.

ERADICATION OF EPADU COCA STRAIN

Senator Kasten: The development of epadu -- a new strain of coca -- is very troubling. To say the least we have not had much luck eradicating coca when it could only be grown on open mountain slopes. The new strain thrives in jungles.

The thought of the jungles of South America full of coca is something I do not want to contemplate. What are we doing to combat Epadu?

Mr. Thomas: Epadu has been cultivated by Amazon Indians for centuries. Recently, some traffickers have enticed Indians to cultivate it for the narcotics trade. Neither the Brazilians nor the USG has any doubt about the potential problems that epadu can cause governments attempting to control coca and cocaine. With INM assistance, the Brazilian Federal Narcotics Police have been undertaking operations on a seasonal basis in Amazonas to eradicate epadu before the leaf can be marketed. During a three-month operation late last year, some eight million stalks of this coca plant were uprooted from several hundred small plantations discovered along the river. Similar operations are planned for this year. While the vastness of the Amazon greatly complicates coca control efforts there, the Brazilian government has increased substantially its resources devoted to coca control along the river.

ECUADOR COCA PRODUCTION

Senator Kasten: Just one year ago Ecuador had no significant production of coca. This year Ecuador may be harvesting as much as 15,000 tons of coca, making it the world's third largest producer. Yet you are requesting only $300,000 for Ecuador -- $25,000 of which is for program development and support. I would think that the third largest producer of coca deserves more than $25,000 to develop a narcotics control program. Wouldn't it be easier to eradicate a year old program than to wait until it gets even worse?

Mr. Thomas: Land under coca cultivation in Ecuador did not go from virtually nothing in 1983 to 1000 hectares in 1984. While we have long known that conditions in Ecuador were propitious for growing the coca plant, significant plantations of coca were not discovered by the authorities until 1984. From the maturity of the plants, these fields appeared to have been in existence for a number of years. Our estimates for 1984 and 1985 production are based on the best intelligence we have, but are admittedly extremely tentative. Increased estimates for Ecuadorian production are therefore more a factor of improved knowledge rather than increased production.

The projection in the International Narcotics Control Strategy Report for 1985 is that net coca leaf production will increase from a 1984 level of 895 metric tons to 2,600 net metric tons in 1985. The US is cooperating with Ecuador on several fronts, including efforts to improve the estimate of how much coca is under cultivation. The program for 1986 is projected at $300,000 for narcotics control, of which $25,000 has been projected for Embassy support charges. Should circumstances dictate the hiring of a contractor, this figure of course would have to be increased. Our program development and support costs traditionally fund personnel and other related overhead costs.

BOLIVIAN COCA BUDGET REDUCTION

Senator Kasten: Bolivia is the world's second largest coca producer according to the International Control Strategy Report, not one single plant was destroyed in 1984, and coca production has tripled since 1977.

Yet your FY 1986 request for the Bolivia program has been reduced from $5.5 million to $3,960,000. As a matter of fact, this is the only country program not getting an increase. Why a decrease?

Mr. Thomas: The budgets for all narcotics program countries take into account current rates of expenditure, estimated expenditure levels and rates for programs likely to be operational in FY 1986, and the amount of funds in pipeline. The FY 1986 request reflects current estimates of Bolivian financial needs for FY 1986, given the current pipelines, delays in implementation plans and assuming a start of the eradication program in FY 1985.

PAKISTAN PROGRAM INCREASE

Senator Kasten: How do you justify the more than doubling of the program for Pakistan?

Mr. Thomas: The FY 1986 budget request is $4.5 million, a 33 percent increase over the 1985 level which was amended by reprogram notification to $3.5 million. While Pakistan is extending its increasingly effective opium ban into additional areas of the Northwest Frontier Province, with solid pledges from the US, the UK, Italy and others for a special development and enforcement project, Pakistan continues to be a major refiner of heroin, drawing on opium production in Afghanistan as well as domestic stocks. The major increase for 1986 is to augment the number of interagency narcotics units deployed to interdict opium and heroin trafficking and heroin production. The increase also supports a new Pakistani training center for narcotics enforcement officers, and operational support for a new aerial surveillance system.

MEXICO PROGRAM REQUEST

Senator Kasten: You are requesting an increase for the program in Mexico, in fact a rather substantial increase. Why should we provide anything in the way of assistance to that country in view of its total non-cooperation in drug-related matters, as has been exhibited over the last several weeks?

Mr. Thomas: Although at times we have had difficulties with Mexico in drug-related matters, there has been continuous cooperation on both eradication and enforcement since the early 1970s with a number of agencies in the Mexican government. INM has stated in testimony that this program has been less effective over the last two years, due to a variety of factors, including official corruption. Secretary Shultz has advised the Government of Mexico that narcotics control is a high priority foreign policy issue that affects other bilateral relations. We are working cooperatively with the Mexicans on a revitalization of the opium poppy and marijuana eradication program funded by the State Department, including an augmented verification program, as well as stepped-up enforcement efforts, assisted by DEA, which are targeted on arrests of major traffickers. Finally, the Mexican government is cooperating with us in the investigation of the Camarena murder case, evident both in the arrest of corrupt police officials and the recent arrest of Caro-Quinterro in Costa Rica.

INCREASING CONTRIBUTION TO UNFDAC

Senator Kasten: Mr. Thomas, you are requesting $2,825,000 for a contribution to the United Nations Fund for Drug Abuse Control, a slight increase over last year's contribution. What would this figure mean as a percentage of cash contributions to the fund? Would you provide for the record a listing of contributions by country to this fund for the year corresponding with our FY 86 contribution?

Mr. Thomas: The total amount of contributions for calendar year 1985 to the United Nations Fund for Drug Abuse Control will not be available until the end of the year. At that time, total contributions will be calculated to include total pledges and contributions made during the calendar year as well as billings made against special-purpose contributions which have been made for use over a period of several years. Based on an average of U.S. contributions over the five-year period of 1980-1984 as a percentage of total contributions for each year, we estimate that the U.S. contribution for 1985 will represent approximately 25% of total contributions.

QUESTIONS SUBMITTED BY SENATOR INOUYE

INTERNATIONAL COMMUNITY COOPERATION

Senator Inouye: Mr. Thomas, as I read your prepared statement, I thought of how little things have changed and how the effectiveness of the International Narcotics Control program continues to be limited and undermined by the inaction of foreign governments.

You say, "Donor assistance is only a part of the success equation." You explain this rather common observation by noting the following:

> Governments of producing nations must demonstrate the political will to undertake effective crop control and interdiction programs. The corruption that has undermined control efforts in many source countries must be stamped out by strong and determined governments. The international community must make common cause in a more vigorous, more widespread, and more united effort to control international narcotics production and trafficking.

You might be interested in learning that ten years ago, in its fiscal year 1976 report, this Committee cited the March 1973 report of the President's strategy council on drug abuse:

> The key factor in dealing effectively with the drug problem overseas is to motivate other governments to take action within their borders to move against drug traffickers. The essence of this problem is essentially diplomatic, since no amount of United States drug training or material assistance will prove effective in the absence of meaningful anti-drug commitment by other foreign governments involved.

Can you explain why, after more than ten years of funding as a separate program whose primary objective has been to enlist other governments in the effort to control the production and trafficking in illicit narcotics, this program continues to be plagued by a failure of political will on the part of other governments?

Does the lack of political will in other governments, the continued presence of corruption on a broad scale in the anti-narcotics efforts of many source countries, and the failure of the international community to join effectively in common cause not mark a diplomatic failure of ten year's duration?

Why should the Congress believe that, by appropriating the full amount you have requested, your diplomatic efforts will be any more successful than they have been in the past?

Mr. Thomas: The question describes correctly the conditions necessary for ultimate success in the USG overall goal, which is simultaneous control of illicit narcotics production in all key growing sectors supplying the U.S. market. In our view, international political commitment has occurred. The following are examples of their resolve.

Obviously, Turkey displayed the necessary political will in imposing its production ban in the early 1970s; Mexico certainly displayed political will in mounting and sustaining aerial herbicidal eradication programs in the mid-1970s to destroy opium poppy and marijuana cultivation, now down sharply from their historic highs; Pakistan displayed considerable political will in forcing opium production down from a high of 800 metric tons to about 45 metric tons today; Colombia displayed indisputable political will in electing herbicidal eradication of its marijuana crops at the same time that U.S. courts denied that same option to our enforcement agencies; Burma is meeting that test of political will today as it prepares a herbicidal eradication project to destroy what is now the world's largest opium crop.

Thus, in calling for a demonstration of political will, INM spoke not to an absence of will, but for a need to elicit that same high level of political will on a global basis.

Normatively, INM did indeed talk about the need for the international community to make drug control a common cause -- precisely because we have been able to demonstrate how much good has emerged from such collective efforts to date. The Special Development and Enforcement Project in Pakistan, which is drawing good support from several major donors, and the emerging alliance in Latin America are but two of a good list of examples of how the international community is responding to the internationalization of the drug abuse problem. Moreover, UNFDAC has succeeded in eliciting more contributions from more countries than ever in its history.

Corruption has not been eliminated as an inhibiting factor and, sadly, it has affected not only prospects in some countries like Bolivia but damaged programs in what had been a very successful campaign in Mexico. Again, speaking prescriptively, INM was arguing that, for the ultimate strategy to work, governments must stamp out corruption -- and many have been very aggressive at eliminating such corruption.

In sum, INM is seeking an increased appropriation because it has demonstrated well that the U.S. strategy is working.

COLOMBIAN NARCOTIC PRODUCTION

Senator Inouye: Mr. Thomas, you have noted the contribution the Colombian eradication program is making with some 4,000 hectares destroyed in 1984. It is only the existing crop and not the productive capacity which is destroyed, is it not? How many marijuana crops can be grown in one year?

How does the 3,000 hectares "destroyed by an aerially applied herbicidal spray" relate to the total area which is under cultivation for marijuana production? Is it one third? One half? How does it relate to area in which there is a potential for production?

Mr. Thomas: Perhaps the simplest way to conceptualize the cultivation/eradication effort is to think of a cumulative total of 10,000 hectares being cultivated in the course of a calendar year. These may or may not be unique hectares, in the sense that some hectares may be planted in both fall and spring cropping cycles. The estimate was that eradication destroyed 4,000 hectares, or 40 percent, of the 1984 crop that was cultivated. The assumption is that half of the hectares eradicated will not be replanted, a net reduction of 2,000 hectares. The 1985 estimate is that 8,000 hectares will be planted, and that 6,000 hectares will be destroyed, or 75 percent of the hectares under cultivation. The further assumption is that 3,000 of the hectares eradicated in 1985 will not be replanted. In 1986, the projection is that 4,000 of 5,000 hectares will be eradicated, with only 2,000 hectares replanted. Thus, with current and projected equipment levels, the Colombian marijuana production will be virtually eliminated at a point in 1986, if not sooner. Since the spray is targeted on living plants, there is no program to spray areas of potential production.

Senator Inouye: Assume that your request is fully funded and that you follow the programming plans you have presented in the Congressional presentation. Further assume that all of the requested equipment is in place and all required personnel have been trained and assigned. Under these assumptions, with reasonable and customary hours of aircraft operation, how many days would be required to eradicate the areas currently under cultivation for marijuana? How long would it take to spray the area where there is a potential for marijuana production? What interval would be required before the crop could be replanted in the area sprayed by the herbicide?

Mr. Thomas: The question presumes that there is an application formula which would, if pursued, result in the elimination of most if not all of the crop in a single cycle. The reality is that the farmers and traffickers will continue to plant, for at least a period of time, and at least initially, there will be an economic incentive to do so. It is assumed that an increase in price occasioned by the reduction in supply in 1984, 1985, etc. will stimulate growers to persist in replanting at least some of the sprayed fields, or to plant in more remote areas, to frustrate the aerial eradication campaign. The statistical estimates cited above reflect this assumption, which we think is realistic. In sum, there has to be a replication of the spraying program each year, presumably in smaller campaigns, until the traffickers and growers are persuaded that the Governments of Colombia and the United States intend to maintain the eradication program. In this sense, the eradication campaign is in part of a war of attrition.

NEW DRUG CONTROL APPROACHES

Senator Inouye: Mr. Thomas, as you know many people who are knowledgeable of issues related to narcotics production and trafficking believe that crop substitution or eradication programs are often stymied by incontrovertible evidence that production of narcotics is a very profitable cash crop and that narcotics producing plants are among the heartiest found in nature and grow virtually anywhere. This makes it prohibitively costly to "buy off" the small producer or to completely destroy the crop.

New approaches are said to be needed which would directly attack the incentive structure for dealing in narcotics. Specifically, new approaches are needed to:

Lower the demand for illicit drugs

Disrupt the enormous money flow associated with these activities (much of which flows through reputable banking institutions); and,

Arrest, extradite and imprison major narcotics traffickers.

The last two of these are clearly areas in which your program could, potentially, make a contribution. What efforts are you making to stop the laundering of narcotics trafficking profits in foreign banks? What efforts are you making to encourage the arrest and extradition of major narcotics traffickers to the U.S.?

Mr. Thomas: State, Treasury and Justice are all concerned with the laundering of narcotics profits. DEA, the FBI and Customs have conducted successful, long-term investigative actions against illegal cash flows. State and Justice, in consultation with other U.S. law enforcement agencies, are actively exploring with several countries, including Caribbean nations which are frequently home to a variety of off-shore and haven banks, concerning agreements such as mutual legal assistance treaties to strengthen bilateral cooperation on law enforcement, including the sharing of financial information. One such agreement was successfully negotiated in 1984 with the Government of the Cayman Islands. An improved procedure has been agreed to by Hong Kong. Discussions are ongoing with Panama on sharing of financial information. And, a treaty has been concluded with the Netherlands which will enhance efforts to obtain financial information from the Netherlands Antilles.

The United States has extradition treaties with numerous countries, and is seeking to expand that number. The most noted example of implementation has been the decision by the Government of Colombia to extradite four traffickers in early 1985. There has been successful implementation also of the treaty with Italy.

QUESTIONS SUBMITTED BY SENATOR DECONCINI

MEXICAN PROGRAM INCREASE

Senator DeConcini: Mr. Thomas, you are requesting $10,100,000 for the Mexican narcotic control program next year -- an increase of $1.2 million or about 14% over last year's estimate.

According to your justifications, a large portion of the increase would be used to beef up Mexico's drug eradication fixed-wing air fleet and related operational and ground support. Frankly, if these additional resources were being pumped into a country that was really cracking down on drug traffickers, I would be optimistic. But the recent outbreak of violence, corruption and foot-dragging in Mexican drug investigations makes me doubt whether these new resources will make a difference.

What makes you think that a 14% hike in narcotics control aid to Mexico will make any difference in their supply of marijuana, opium, and heroin that is capturing a larger and larger portion of the international drug market? Be specific.

Mr. Thomas: As stated in the budget request, we need to augment the eradication equipment because of the changing cultivation patterns and the overall increase in opium cultivation. In FY 1986, INM intends to purchase two additional spray aircraft as well as two small aircraft used for field spotting and support activities. INM is helping the Mexicans incorporate fixed-wing aircraft into the program, including the Thrush aircraft which tests have shown to be more effective at spraying narcotics crops than helicopters. Other increases are related to this change, including pilot training and ground support.

While there have been problems with the Mexican program in the last two years, problems which both the US and Mexico are working aggressively to correct -- including resort to a sweep strategy -- reports from the MAGO indicate a high level of eradication was achieved in 1984, including 3,575 hectares of marijuana and 3,700 hectares of opium poppy, or 41 per cent of the marijuana (including the major plantings at Chihuahua), and 61 percent of the opium poppy. The Mexican share of the US heroin market rose slightly in 1984, as a percentage of all imports, even though net opium production remained at about 17 metric tons and heroin production at about 1.6 metric tons, both in line with the 1983 levels. The US objective is to improve upon both of those efforts.

MEXICAN DRUG CONTROL EFFORTS

Senator DeConcini: Secretary Thomas, I can't pass up the opportunity to get your candid, on the record assessment of the Mexican Government's efforts to (1) crack down on drug traffickers and (2) to crack down on the opium, coca, and marijuana crops in Mexico. My opinion is that both have suffered a serious setback in recent years, after several years of promising progress in both eradication and drug trafficker prosecutions. What is your assessment of the situation in Mexico in the wake of the Camarena murder?

Mr. Thomas: The Government of Mexico increased its opium poppy and cannabis eradication efforts in 1984 in response to efforts by traffickers to expand, camouflage and diversify cultivation. The Mexican Attorney General's Office reports eradication of 3,700 hectares of opium poppy, compared to 2,472 hectares in 1983, and 1,211 hectares in 1982. The MAGO also reported 3,575 hectares of marijuana were destroyed in 1984 compared to 2,674 hectares in 1983, and 886 hectares in 1982.

These gains notwithstanding, production of opium poppy was at least at the 1983 level (17 metric tons) and cannabis production increased in 1984. There are strong indications that the Mexican program has been less effective over the past two years and that corruption played a major role in this decline. While U.S. and Mexican enforcement agencies worked effectively together to detect and then seize the massive marijuana cache at Chihuahua, this large-scale marijuana production complex reinforces the point about the need for heightened vigilance and suppression of corruption. Indeed, the Mexicans call their effort the "permanent campaign," recognizing that fighting narcotics requires a constant readiness and a long-term sustained effort.

The program is being revitalized. The high performance agricultural spray airplane (Thrush fixed-wing) and new spray boom which our two governments tested in late 1983 is being incorporated into the program. The former zone strategy, which proved vulnerable to corruption, has been replaced by a sweep strategy that is showing improved results. There have been agreements on enhancing the verification efforts initiated by the Mexicans, including use of aerial photography both to plan eradication and confirm results. Our governments are actively discussing improvements in interdiction efforts, including concentration on arrests of major traffickers.

The United States is pleased that President de la Madrid has stated clearly his intention to strengthen the eradication campaigns against both opium and marijuana. However, in the wake of the Camarena killing and recent disclosures about the effects of corruption on the program, Secretary Shultz advised the Mexican foreign secretary at meetings in March that narcotics is a high priority foreign policy issue that affects our other bilateral relationships, a message reinforced by Attorney General Meese in later meetings with Attorney General Garcia Ramirez.

ABOLISHMENT OF MANSFIELD AMENDMENT

Senator DeConcini: Mr. Thomas, as your know, the so-called Mansfield amendment prohibits U.S. law enforcement personnel from participating in arrests or interrogations in foreign countries. This amendment was added to a foreign assistance bill in response to alleged over zealousness by our drug enforcement officers in Southeast Asia and other parts of the world. When the Senate reconvenes next week, I intend to introduce legislation to abolish the Mansfield amendment, adding certain safeguards to assure that our law enforcement officers conduct themselves under the same procedures that they are expected to follow in the United States.

What would be your response to legislation abolishing the Mansfield Amendment:

Mr. Thomas: Occasionally, one hears of complaints within members of the drug enforcement community that US narcotics enforcement efforts are inhibited by the Mansfield Amendment. That statute, you correctly point out, was designed to prohibit direct police arrest and interrogation actions of US agencies in foreign countries, actions which the Department continues to believe should be limited. Several bills are being considered; some would provide for a country-specific exception from the Mansfield Amendment; other bills would make exceptions for every country which wished to enter into such an agreement.

If the Mansfield Amendment is revised to either lift or modify the prohibition on these kinds of police actions, such actions would still be subject to an appropriate agreement with the country concerned with such actions.

In most if not all jurisdictions, a host government would regard the activities currently prohibited by the Mansfield Amendment to be a violation of its sovereignty. In the absence of some prior bilateral agreement providing the necessary consent and limitations for the particular direct law enforcement activity contemplated, any such conduct could subject US law enforcement officials to arrest, detention or expulsion and could have serious impact on our foreign relations.

A primary objective of the international narcotics program is to encourage and facilitate foreign states to promulgate and enforce their own laws and to advance our mutual cooperation in the enforcement of our respective anti-drug laws. We are unaware of any special circumstances at this time that would warrant our seeking the necessary authority for US law enforcement agents to take the kind of direct police actions in foreign jurisdictions currently prohibited in the Mansfield Amendment. If officials charged with narcotics law enforcement in the US believe that the Mansfield Amendment limits their operations, we are prepared to review the particular problem with them and, if necessary and desirable, work out a proposed revision that would better suit their particular needs.

COLOMBIAN PROGRAM PIPELINE

Senator DeConcini: You are requesting $10.6 million for narcotics control programs in Colombia next year -- a small increase of $300,000 over last year but still about a 66% increase over funding in fiscal year 1984. Yet I notice that you are experiencing about $4 million a year over the past two years in unexpended balances for Colombian narcotics control programs. In view of Colombia's preeminent role as the major producer of cocaine in the world, it baffles me why the State Department is having trouble putting these funds to use.

Can you explain why the Colombian narcotics control program is experiencing these large unobligated balances year after year?

Mr. Thomas: The unexpended balance as reported by INM on the budget reports as of 9/30/84 consists of $2.5 million in undelivered orders (i.e., accounts payable for large capital items such as aircraft) and $1.6 million for pending procurement. It should be noted that INM obligates generally in the 2nd half of the fiscal year which tends to show a large funding availability (i.e. unexpended balance) as of September 30.

Senator DeConcini: What is your forecast for the Colombian coca leaf eradication effort in both the current fiscal year and in fiscal year 1986? We hear reports that this year's crops could be sharply cut back, while at the same time, we see a glut of cocaine and record seizures in the United States. Can you explain this apparent contradiction?

Mr. Thomas: Our forecast for coca eradication in Colombia depends on whether a suitable herbicide can be identified and procured. Assuming only manual eradication we estimate that we will eradicate 1800 hectares in 1985. However, with aerial spraying we could eradicate 6000 hectares in 1985 and 10,000 in 1986. A glut of cocaine on the market does not contradict increases in eradication, since there appears to be a large overproduction of cocaine in Bolivia and Peru.

BOLIVIAN PROGRAM PIPELINE

Senator DeConcini: I notice in your budget justifications that your narcotics control program for Bolivia is experiencing large unexpended balances of funds appropriated in prior years. For example, nearly 40% of total obligations for 1984 were not spent that year. You also project that $2.75 million will be unspent at the end of this year in the Bolivian narcotics control program.

Why are you having such a tough time spending the funds that have been appropriate for narcotics control activities in Bolivia?

Mr. Thomas: The four project agreements that were signed in August 1983 and subsequently amended in February 1984 called for voluntary and mandatory eradication, police assistance and marketing support. Given the tenuous political situation in Bolivia and security concerns, the GOB could not implement its plans until law and order was reinstituted in the region by introducing the military, an event that occurred only in the fall of 1984.

Moreover, large sums have been planned for mandatory eradication efforts which have not occurred since a Bolivian law has not yet been passed making it illegal to grow coca in excess of licit demand. With the passage of the law expected in FY 1985 to increase security in the region, we plan to improve our "throughput rate" significantly.

DRUG CONTROL EFFORTS IN TRANSIT COUNTRIES

Senator DeConcini: The International Narcotics control program, according to your program description, covers not only source drug countries but interdiction and related enforcement activities in transit nations. We have just learned of the arrest three top Government officials in the Turks and Caicos Islands on drug trafficking charges. The Bahamas -- only 50 miles off our Florida coast is probably the No. 1 transit country in the Western Hemisphere; and Jamaica is rapidly joining the Bahamas as a transit country, as well as being a major marijuana source country. Yet your fiscal 1986 INM budget does not provide one nickel for any transit countries to help attack the drug transshipment problem.

Can you explain why, despite a 14% increase in your overall Narcotics Control Program budget for 1986, you are not spending any money in the major drug transit countries?

Mr. Thomas: We do closely monitor developments in the narcotics transit countries, and have in fact supported a number of programs in those countries. For example, in 1984, we signed an agreement with the government of the Bahamas to supply approximately $225,000 worth of communications equipment to Bahamian security forces engaged in narcotics interdiction and have supported joint U.S./Bahamas interdiction operations. We have agreed to provide assistance to Jamaican interdiction efforts in the form of spare parts and maintenance assistance supporting Jamaican interdiction activities. Funds for these and other countries in the region are provided out of those designated for "Latin American Regional Programs". We will continue to work with other U.S. Government agencies and governments in the Caribbean and Central America to encourage maximum interdiction efforts throughout the region.

In FY 1986, we are requesting $2,000,000 for key transit countries, such as Haiti, the Bahamas, Jamaica, Panama, Honduras, Costa Rica, etc. Moreover, through the interregional training program, we sponsor police and customs enforcement assistance in many of the key transit nations: e.g. recent attendees include participants from St. Kitts, St. Vincents, Jamaica, Barbados, the Bahamas, Martinique, etc.

Having noted these examples, however, I must emphasize that we continue to believe that the most effective way to eliminate the flow of drugs to the United States is to attack the problem at the source, i.e. in the drug producing countries. One may, in a sense, view the narcotics supply lines as a funnel. As drugs move away from the source of production, they become dispersed over a wider geographical area and through constantly shifting drug supply routes. This dispersion complicates the task of locating and destroying the drugs, even with substantial resources devoted to the effort. We cannot afford to neglect strong and effective interdiction programs; however, we believe that in order to eliminate drugs as a long-term threat to our society, we must eliminate narcotics production at the source and focus our resources on that effort.

MATERIAL SUBMITTED SUBSEQUENT TO CONCLUSION OF HEARING

(CLERK'S NOTE: The following information was received subsequent to the hearing;)

U.S. Department of Transportation
United States Coast Guard

Commandant
United States Coast Guard

Washington, DC 20593
Staff Symbol G-CC
Phone 202-426-4280

5730

12 March 1985

The Honorable Robert W. Kasten
United States Senate
Washington, D. C. 20510

Dear Senator Kasten:

The Coast Guard's narcotics interdiction program is a significant element in the overall Federal Strategy on Drugs. I have attached for your information a statistical summary and a narrative of significant law enforcement actions for the period of December 1 - December 31, 1984 and January 1 - February 28, 1985. I hope you will find the information useful.

Sincerely,

W. T. LELAND
Captain, U. S. Coast Guard
Chief, Congressional Affairs Staff
By direction of the Commandant

Attachment 1: Statistical Summary
Attachment 2: Law Enforcement Actions

STATISTICAL SUMMARY

December 1 - December 15, 1984

- During the period December 1 - 15, 1984, the Coast Guard seized 17 drug laden vessels; 13 U. S., two Haitian, and two Panamanian. These seizures resulted in the interdiction of 26,928 pounds of marijuana, 34.5 pounds of cocaine and the arrest of 47 persons. In addition, the Coast Guard interdicted 567 illegal aliens and recovered 5,230 pounds of marijuana as floating debris.

- Calendar Year statistics to December 15, 1984:

Coast Guard Only:

Vessels Seized: 213

Contraband:

Marijuana from vessels - 2,446,320 pounds
Marijuana as floating debris - 55,736 pounds
Cocaine from vessels - 1,929.72 pounds
Cocaine as floating debris - 37.2 pounds
Heroin (body carry) - 2.2 pounds
Hashish - 1 pound
Hash oil - 18 gallons
Thai sticks - 1 pound

Arrests: 914

Aliens:	2,966	Haitian
	330	Other
	3,296	Total

Assistance To Other Agencies:

Vessels Seized: 37

Contraband:

Marijuana from vessels - 234,551 pounds
Marijuana as floating debris - 7,645 pounds
Cocaine from vessels - 75 pounds
Thai sticks - 16,000 pounds

Arrests: 114

NOTE: Some of the figures used in this summary are estimates and may change as the final counts are provided.

LAW ENFORCEMENT ACTIONS

December 1 - 15, 1984

SIGNIFICANT CASES

- On December 4, 1984, CGC SEA HAWK interdicted a 60 foot Haitian sailboat 20 nautical miles southeast of Providence Island, Bahamas with 262 illegal Haitian migrants onboard. The vessel was destroyed as a health hazard and the migrants were returned to Port-au-Prince.

- On December 11, 1984, CGC ACUSHNET intercepted the Mexican fishing vessel ORTHON P. BLANCO in the vicinity of Banco Chinchorro, Mexico. The vessel entered Mexican territorial waters and, after ACUSHNET notified Mexican authorities, was seized by the Mexican Naval vessel D 05 with approximately 4000 pounds of marijuana on board. The vessel and the crew of four Mexican citizens were taken to the Mexican Naval Base at Isla Mujeres.

- On December 11, 1984, a Royal Bahamian Defense Force patrol boat ABACO located the 45 foot Haitian freighter OHMECA 20 nautical miles west of Georgetown, Bahamas with 224 illegal Haitian migrants. The assistance of the U. S. Coast Guard was requested. CGC RELIANCE and CGC ALERT were dispatched to the scene and relieved the RBDF vessel of the case. The vessel was destroyed as a health hazard, and the migrants were returned to Port-au-Prince.

- On December 14, 1984, the 36 foot U. S. cigarette boat FL-2600-EY was seized and three U. S. citizens arrested after a lengthy chase involving patrol boats, helicopters and aircraft from the Coast Guard, Customs Service and Florida Marine Patrol. Initially detected and chased into Biscayne Bay by CGC CAPE SHOALWATER, the boat was observed jettisoning over 30 bales of marijuana by a Coast Guard helicopter using a "Night Sun" illumination device. As patrol units responded, the vessel fled toward the Bahamas. It was finally stopped by a Customs helicopter just short of Bahamian waters, where CGC CAPE FOX conducted a boarding. No contraband was found on the boat, but 67 bales of marijuana were recovered from the water.

OTHER CASES

- On December 2, 1984, CGC CAPE SHOALWATER intercepted the 28 foot U. S. fishing vessel FL-4085-AY towing the 33 foot U. S. pleasure craft FL-5123-BH southeast of Miami. Both vessels were seized when 200 pounds of marijuana were found onboard the towed vessel. One Cuban and three U. S. citizens were arrested.

- On December 2, 1984, CG GROUP CHARLESTON seized the 35 foot U. S. cigarette boat, FL-8955-DW, in Charleston Harbor with marijuana residue onboard. The vessel was found east of Cape Kennedy, FL adrift and abandoned. It was towed to Charleston by a civilian vessel.

- On December 3, 1984, CG STATION LAKE WORTH INLET seized the 28 foot U. S. cabin cruiser, SOUTHERN COMFORT, grounded 200 yards from Lake Worth Inlet with 18 pounds of cocaine onboard. One U. S. citizen was arrested.

- On December 3, 1984, CGC PT STEELE intercepted the 50 foot converted Haitian work boat, NEW JERUSALEM, eight nautical miles southeast of Miami with 49 illegal Haitian migrants and 200 pounds of marijuana onboard. The vessel was destroyed as a health hazard and the migrants were returned to Port-au-Prince. The marijuana was turned over to Haitian authorities.

- On December 5, 1984, CGC CAPE SHOALWATER seized the 41 foot U. S. sport fisherman, BETTY II, 30 nautical miles southeast of West Palm Beach, FL with 1425 pounds of marijuana. Two U. S. citizens were arrested.

- On December 7, 1984, CGC CAPE SHOALWATER interdicted the 28 foot U. S. speed boat, FL-4312-DL, 100 nautical miles southeast of Miami with four illegal Cuban migrants onboard. The vessel and migrants were turned over to INS.

- On December 8, 1984, CGC CAPE SHOALWATER seized the 35 foot U. S. sport fisherman, MISS ASHLEY, east of West Palm Beach with 3.5 pounds of cocaine onboard. Six U. S. citizens were arrested.

- On December 8, 1984, CG BASE MIAMI seized the 58 foot Haitian freighter, JERSIKA, on the Miami River. A boarding revealed 1380 pounds of marijuana and six illegal Haitian migrants onboard. The vessel and marijuana were turned over to the Miami Task Force and the migrants were turned over to INS.

- On December 10, 1984, CG BASE MIAMI seized the 18 foot U. S. pleasure craft, FL-7220-BF, 12 nautical miles east of Miami with 420 pounds of marijuana. One U. S. citizen was arrested.

- On December 10, 1984, CGC CAPE SHOALWATER interdicted a 22 foot Haitian open boat 30 nautical miles east of Ft. Pierce, FL with one Guayanese and eleven Haitian migrants aboard. The vessel was destroyed as a health hazard. The Haitians were returned to Port-au-Prince and the Guyanese migrant was transferred to INS in Miami.

- On December 11, 1984, USS TAURUS with a Coast Guard LEDET aboard, intercepted the 80 foot Panamanian fishing vessel, SILVER STAR II, 120 nautical miles northeast of Guadeloupe. A consensual boarding was made by the CGC WHITEHORN and contraband was discovered in a hidden compartment. After permission was received from the Government of Panama, the vessel was seized with 21,350 pounds of marijuana. One Honduran and four Dominican citizens were arrested.

- On December 11, 1984, CG BASE MIAMI seized an 18 foot U. S. pleasure craft, Fl-1432-DL, five nautical miles east of Miami when 650 pounds of marijuana were discovered in a hidden compartment. One U. S. citizen was arrested.

- On December 11, 1984, CG BASE SAN JUAN seized the 140 foot Panamanian motor vessel, TUPAC AMARU, in San Juan Shipyard after marijuana residue was discovered on board. One U. S., one Cuban, and eight Colombian citizens were arrested.

- On December 12, 1984, CGC CAPE SHOALWATER seized the 19 foot U. S. pleasure craft, FL-8905-CH, five nautical miles southeast of Miami when 550 pounds of marijuana were discovered in a hidden compartment. One U. S. citizen was arrested.

- On December 12, 1984, CGC CAPE SHOALWATER seized the 20 foot U. S. pleasure craft, FL-3232-BF, ten nautical miles southeast of Miami when 900 pounds of marijuana were discovered in a hidden compartment. One U. S. citizen was arrested.

- On December 12, 1984, CGC CAPE SHOALWATER seized the 33 foot U. S. cabin cruiser, FL-5231-EK, six nautical miles southeast of Miami after 8.8 pounds of cocaine were discovered in a hidden compartment. Two U. S. citizens were arrested.

- On December 14, 1984, CGC CAPE FOX interdicted a 22 foot open boat 30 nautical miles east of Miami with ten Cuban migrants onboard. The vessel and migrants were transferred to INS in Miami.

- On December 15, 1984, CGC CAPE FOX seized the 28 foot U. S. fishing boat, CAPT. DAVID, three nautical miles off Lode Key, FL when marijuana residue was discovered on board. Two U. S. citizens were arrested.

COAST GUARD INVOLVEMENT IN CURRENT ADMINISTRATION INITIATIVES

December 1 - December 15, 1984

- On December 11, 1984, Office of Operations staff attended a meeting of the National Narcotics Border Interdiction System (NNBIS) Joint Surveillance Committee (JSC) to review the proposed final report on drug interdiction.
- On December 12, 1984, Office of Operations staff attended the regularly scheduled Organized Crime Drug Enforcement Task Force (OCDETF) meeting.
- On December 14, 1984, the Commandant, ADM J. S. GRACEY, attended a meeting of the NNBIS Coordinating Committee to review the JSC final report.

STATISTICAL SUMMARY

December 16 - December 31, 1984

- During the period December 16 - 31, 1984, the Coast Guard seized six drug laden vessels; five U. S. and one Panamanian. These seizures resulted in the interdiction of 50,549 pounds of marijuana and the arrest of 19 persons. In addition, the Coast Guard interdicted 12 illegal aliens.
- Calendar Year statistics to December 31, 1984:

Coast Guard Only:

Vessels Seized: 218

Contraband:

Marijuana from vessels - 2,492,869 pounds
Marijuana as floating debris - 55,736 pounds
Cocaine from vessels - 1,929.72 pounds
Cocaine as floating debris - 37.2 pounds
Heroin (body carry) - 2.2 pounds
Hashish - 1 pound
Hash oil - 18 gallons
Thai sticks - 1 pound

Arrests: 929

Aliens:	2,966	Haitian
	342	Other
	3,308	Total

Assistance To Other Agencies:

Vessels Seized: 38

Contraband:

Marijuana from vessels - 238,551 pounds
Marijuana as floating debris - 7,645 pounds
Cocaine from vessels - 75 pounds
Thai sticks - 16,000 pounds

Arrests: 118

NOTE: Some of the figures used in this summary are estimates and may change as the final counts are provided.

LAW ENFORCEMENT ACTIONS

December 16 - 31, 1984

SIGNIFICANT CASES

- On December 31, 1984, CGC CITRUS intercepted the 162 foot Panamanian coastal freighter, PACIFIC STAR, 825 nautical miles southwest of Los Angeles, California. Permission to board was received from the Panamanian Government on January 1. As the boarding party approached, the PACIFIC STAR was set on fire, rammed into CITRUS, and despite efforts by the crew of CITRUS, subsequently sank. Over 400 five-kilo packages of marijuana floated free from the PACIFIC STAR and it was learned that 44,000 pounds of marijuana were onboard. CITRUS proceeded to San Diego with the recovered contraband and the seven arrested crewmembers (one Panamanian, one Filipino, and five U. S. citizens).

OTHER CASES

- On December 19, 1984, CGC CAPE SHOALWATER seized the 25 foot U. S. fishing vessel, FL-4389-EM, five nautical miles east of Miami with 1,000 pounds of marijuana. One Cuban citizen was arrested.

- On December 22, 1984, CGC CHASE seized the 28 foot U. S. fishing vessel, GALENA, in the Windward Passage with 3,250 pounds of marijuana. Three crew members, one U. S., one Dominican and one Cuban citizen, were arrested.

- On December 23, 1984, CG BASE MIAMI seized the 18 foot U. S. pleasure craft, FL-1793-AY, at Base Miami with 90 pounds of marijuana. Four Cuban citizens were arrested.

- On December 23, 1984, CGC PT BARNES intercepted the 25 foot U. S. cabin cruiser, FL-0287-AR, ten nautical miles southwest of Bimini Island, Bahamas, with twelve illegal migrants onboard. The seven Dominican, three Indian, and two Pakistani citizens were transported to Base Miami and turned over to INS.

- On December 25, 1984, CGC SHEARWATER seized the 37 foot U. S. fishing vessel, BARRACUDA, in Key West, FL when 1,984 pounds of marijuana were discovered in a hidden compartment. Two Cuban citizens were arrested.

- On December 30, 1984, CG STATION FT. LAUDERDALE seized the 20 foot U. S. pleasure craft, FL-4876-CE, in Hillsborough Inlet, FL with 225 pounds of marijuana. Two Jamaican citizens were arrested.

COAST GUARD INVOLVEMENT IN CURRENT ADMINISTRATION INITIATIVES

December 16 - December 31, 1984

- On December 18, 1984, Coast Guard law enforcement staff met with members of Congressman Rodino's staff to discuss the interdiction efforts against illegal migrants.

- On December 18, 1984, RADM N. C. VENZKE attended a Law Enforcement Operations Coordination Committee at DEA Headquarters.

- On December 31, 1984, RADM N. C. VENZKE briefed the Colombian Naval Attache on Caribbean operations.

- On January 31, 1985, the Commandant, ADM J. S. GRACEY, will address the Western Hemisphere Conference on Narcotics in Washington, D.C.

STATISTICAL SUMMARY

January 1 - January 15, 1985

- During the period January 1 - 15, 1985, the Coast Guard seized thirteen drug laden vessels; eleven U. S. and two stateless. These seizures resulted in the interdiction of 71,795 pounds of marijuana, 70 pounds of cocaine, and the arrest of 47 persons. In addition, the Coast Guard interdicted 34 illegal aliens.

- Calendar Year statistics to January 15, 1985:

Coast Guard Only:

Vessels Seized: 13

Contraband:

Marijuana from vessels - 71,795 pounds
Cocaine from vessels - 70 pounds

Arrests: 47

Aliens: 32 Haitian
2 Other
34 Total

Assistance To Other Agencies:

Vessels Seized: 1

Contraband:

Cocaine from vessels - 20 pounds

Arrests: 1

NOTE: Some of the figures used in this summary are estimates and may change as the final counts are provided.

LAW ENFORCEMENT ACTIONS

January 1 - January 15, 1984

- On January 3, 1985, CG STATION PORT CANAVERAL seized the 29 foot U. S. pleasure craft, FL-7790-EK, in Port Canaveral, Florida with marijuana residue. The two Bahamian citizens onboard were determined to be illegal aliens, and after being arrested, were turned over to INS.

- On January 4, 1985, CGC UTE seized the 23 foot U. S. sailing vessel, MARANATHA, in the Yucatan Channel when 175 pounds of marijuana were discovered in a hidden compartment. Two U. S. citizens were arrested.

- On January 5, 1985, CG STATION ISLAMORADA seized the 30 foot U. S. pleasure craft, SPORTY, in Islamorada, Florida with marijuana residue. Four U. S. citizens were arrested.

- On January 6, 1985, CGC CAPE SHOALWATER seized the 18 foot U. S. pleasure craft, FL-6816-CT, ten nautical miles east of Miami when 900 pounds of marijuana were discovered in a hidden compartment. One U. S. citizen was arrested.

- On January 6, 1985, CGC CAPE SHOALWATER seized the 18 foot U. S. pleasure craft, FL-6300-CH, ten nautical miles east of Miami when 600 pounds of marijuana were discovered in a hidden compartment. One U. S. citizen was arrested.

- On January 6, 1985, CGC CAPE SHOALWATER, seized the 35 foot U. S. cabin cruiser, FL-3783-DW, 25 nautical miles east of Hillsboro Inlet, Florida with marijuana residue and 70 pounds of cocaine. Two U. S. citizens were arrested.

- On January 7, 1985, CGC CAPE SHOALWATER seized the 24 foot U. S. pleasure craft, FL-7058-BF, eight nautical miles west of Bimini Island, Bahamas with 1,000 pounds of marijuana. Three U. S. citizens were arrested.

- On January 7, 1985, a helicopter from CG AIR STATION MIAMI assisted U. S. CUSTOMS in retrieving a 24 pound package of cocaine thrown from a vessel onto an island in a golf course. Two persons were arrested.

- On January 7, 1985, CGC PETREL seized the 32 foot U. S. cabin cruiser, FL-3783-DL, ten nautical miles southeast of Miami with marijuana residue. One Dominican and two Cuban citizens were arrested.

- On January 10, 1985, CG STATION LAKE WORTH INLET seized the 30 foot U. S. cabin cruiser, FL-7768-AY, in Lake Worth Inlet, Florida with marijuana residue onboard. Two U. S. citizens were arrested.

- On January 13, 1985, CGC SHEARWATER intercepted the 30 foot Haitian sailing vessel, AVENDRE LA VICTOIR, in the Windward Passage with 32 illegal Haitian migrants onboard. The migrants were returned to Port-au-Prince and the vessel was sunk as a health hazard.

- On January 13, 1985, CGC GALLATIN intercepted the 65 foot fishing vessel, MARIA ELENA, 300 nautical miles north of Puerto Rico. The vessel claimed to be registered in Venezuela, but this was refuted by the Government of Venezuela. The vessel was seized as stateless when 40,290 pounds of marijuana were discovered onboard. The crew of nine Colombian and two Cuban citizens was arrested.

- On January 14, 1984, CGC SEA HAWK seized the 55 foot U. S. sport fisher, EL CID, 150 nautical miles southeast of Key West, Florida with marijuana residue. Three U. S. citizens were arrested.

- On January 14, 1985, CGC SAGEBRUSH intercepted the 50 foot cabin cruiser, CAREY, 155 nautical miles northwest of Puerto Rico. The vessel claimed to be registered in the Bahamas, but this was refuted by the Government of the Bahamas The vessel was boarded and seized as stateless when 9,274 pounds of marijuana were discovered onboard. The crew of seven was arrested.

- On January 14, 1985, CGC COURAGEOUS seized the 52 foot U. S. fishing vessel, BLACK STALLION, 330 nautical miles northwest of Puerto Rico with 19,550 pounds of marijuana onboard. Three Colombian and three Peruvian citizens were arrested.

COAST GUARD INVOLVEMENT IN CURRENT ADMINISTRATION INITIATIVES

January 1 - January 15, 1985

- On January 3, 1985, Office of Operations staff met with Mr. L. C. Jennings, Associate Commissioner of Examinations, and other staff members from the Immigration and Naturalization Service to discuss methods of intelligence useful to our alien interdiction program.

- On January 8, 1985, Office of Operations staff attended the regularly scheduled meeting of the Organized Crime Drug Enforcement Task Force (OCDETF).
- On January 10, 1985, VADM P. A. Yost, Commander, Atlantic Area, testified before the Senate Appropriations Committee in New York, on Coast Guard international narcotics efforts.
- On January 15, 1985, Office of Operations staff attended a meeting of the United Nations Commission on Narcotic Drugs at the State Department to discuss proposals and nominate delegates to attend the upcoming conference in Vienna on February 11, 1985.
- On January 31, 1985, the Commandant, ADM J. S. GRACEY, will address the Western Hemisphere Conference on Narcotics in Washington, D.C.

STATISTICAL SUMMARY

January 16 - January 31, 1985

- During the period January 16 - 31, 1985, the Coast Guard seized four drug laden vessels; three U. S. and one British. These seizures resulted in the interdiction of 5,226 pounds of marijuana, 659 pounds of cocaine, and the arrest of 18 persons. In addition, the Coast Guard interdicted 82 illegal aliens and recovered 7,245 pounds of marijuana as floating debris.
- Calendar Year statistics to January 31, 1985:

Coast Guard Only:

Vessels Seized: 17

Contraband:

Marijuana from vessels - 84,266 pounds
Cocaine from vessels - 729 pounds

Arrests: 65

Aliens:		
	106	Haitian
	10	Other
	116	Total

Assistance To Other Agencies:

Vessels Seized: 5

Contraband:

Marijuana from vessels - 25,302 pounds
Cocaine from vessels - 20 pounds

Arrests: 8

NOTE: Some of the figures used in this summary are estimates and may change as the final counts are provided.

LAW ENFORCEMENT ACTIONS

January 16 - January 31, 1984

- On January 17, 1985, CGC DILIGENCE seized the 45 foot U. S. fishing vessel, TAMMY, in Exuma Sound, Bahamas with over 1,000 pounds of marijuana. Four U. S. citizens were arrested.
- On January 22, 1985, CGC SALVIA recovered two illegal Haitian migrants stranded on Cay Lobos, Bahamas. The migrants were turned over to Bahamian authorities.
- On January 27, 1985, CG STATION FT LAUDERDALE intercepted the 28 foot U. S. pleasure craft, FL-5471-EA, 17 nautical miles northwest of Bimini Island, Bahamas with eight illegal Cuban migrants onboard. The migrants were remanded to INS.
- On January 28, 1985, CGC VIGILANT intercepted and boarded the 171 foot Grand Cayman coastal freighter, EMANUEL II, in the Windward Passage. The vessel was seized under the provisions of the US/UK agreement when 659 pounds of cocaine were discovered in a hidden compartment. Three Colombian, two Honduran, and four Nicaraguan citizens were arrested.
- On January 28, 1985, a helicopter from CG AIR STATION MIAMI recovered two persons from the capsized 25 foot U. S. vessel, FL-8849-EA, ten nautical miles southwest of Freeport, Bahamas. After being righted and dewatered by CG STATION FT LAUDERDALE, the vessel was found to contain marijuana residue, and the two U. S. citizens were arrested.
- On January 28, 1985, the 35 foot Haitian sailing vessel, LA PINTA, ran aground on Andros Island, Bahamas with 72 people on board. CGC DILIGENCE, CGC CAPE SHOALWATER and aircraft from CG AIR STATION CLEARWATER and CG AIR STATION MIAMI converged on the area and recovered the victims. All the migrants were returned to Port-au-Prince in good health.
- On January 31, 1985, CG BASE MIAMI BEACH seized the 36 foot U. S. fishing vessel, TANYA, ten nautical miles east of Miami with 4,225 pounds of marijuana onboard. One U. S. and two Cuban citizens were arrested.

COAST GUARD INVOLVEMENT IN CURRENT ADMINISTRATION INITIATIVES

January 16 - January 31, 1985

- On January 15 and 29, 1985, Office of Operations staff attended meetings of the United Nations Commission on Narcotic Drugs to discuss agenda items for the upcoming conference in Vienna in February.
- On January 23 and 24, 1985, RADM R. P. Cueroni conducted briefings on Coast Guard narcotic interdiction operations in the Florida area to staff members of the House and Senate.
- On January 28, 1985, Office of Operations staff attended a meeting with National Narcotics Border Interdiction System staff regarding a request from the Government of Bahamas for resource assistance.
- On January 31, 1985, the Commandant, ADM J. S. GRACEY, gave a presentation on Coast Guard narcotics law enforcement operations before the Western Hemisphere Conference on Narcotics Control in Washington, D.C.

STATISTICAL SUMMARY

February 1 - February 15, 1985

- During the period February 1 - 15, 1985, the Coast Guard seized three drug laden vessels - one U. S., one Panamanian, and one stateless. These seizures resulted in the interdiction of 38,150 pounds of marijuana and the arrest of 14 persons. In addition, the Coast Guard interdicted 18 illegal aliens.

- Calendar Year statistics to February 15, 1985:

Coast Guard Only:

Vessels Seized: 20

Contraband:

Marijuana from vessels - 122,376 pounds
Cocaine from vessels - 729 pounds

Arrests: 79

Aliens:		
	124	Haitian
	10	Other
	134	Total

Assistance To Other Agencies:

Vessels Seized: 5

Contraband:

Marijuana from vessels - 25,302 pounds
Cocaine from vessels - 20 pounds

Arrests: 8

NOTE: Some of the figures used in this summary are estimates and may change as the final counts are provided.

LAW ENFORCEMENT ACTIONS

February 1 - February 15, 1985

- On February 4, 1985, CGC CAPE CURRENT intercepted the 23 foot U. S. pleasure craft ANNIE MAE eight miles west of Bimini Island, Bahamas with 18 illegal Haitian migrants onboard. The vessel was taken to Miami and the migrants were transferred to CGC RELIANCE and returned to Port-au-Prince. The two operators of this vessel were remanded to the INS Anti-smuggling Unit for possible prosecution in the U. S.

- On February 7, 1985, CGC GALLATIN intercepted the 35 foot fishing vessel LUZDARY in the Windward Passage. The vessel claimed Colombian registry, but after Colombia refuted the claim, it was seized as stateless with 12,000 pounds of marijuana onboard. Six Colombian citizens were arrested.

- On February 10, 1985, CGC VIGILANT consensually boarded the 60 foot Panamanian ~~fishing~~ vessel ISLA OTOQUE 25 nautical miles northwest of Nassau, Bahamas, and discovered 22,000 pounds of marijuana in a hidden compartment. After permission was received from the Government of Panama the vessel was seized and one Honduran and five Colombian citizens were arrested.

- On February 11, 1985, CGC SHEARWATER seized the 35 foot U. S. fishing vessel JOHN on Cay Sal Bank, Bahamas, when 4,150 pounds of marijuana were discovered onboard. Two U. S. citizens were arrested.

COAST GUARD INVOLVEMENT IN CURRENT ADMINISTRATION INITIATIVES

February 1 - February 15, 1985

- On February 5, 1985, RADM N. C. VENZKE, Chief of Operations, attended a meeting of the South American Narcotics Initiative Group at the State Department.
- On February 6, 1985, RADM N. C. VENZKE, Chief of Operations, attended a meeting of the Executive Committee of the Boeing Seaborne Drug Interdiction Study in Seattle, Washington.
- On February 11, 1985, RADM N. C. VENZKE, Chief of Operations, attended a meeting of the Organized Crime Drug Enforcement Task Force (OCDETF) Working Group at the Justice Department to review the OCDETF draft Annual Report for 1984.

STATISTICAL SUMMARY

February 16 - February 28, 1985

- During the period February 16 - 28, 1985, the Coast Guard seized eleven drug laden vessels - eight U. S. and three stateless. These seizures resulted in the interdiction of 116,111 pounds of marijuana and the arrest of 33 persons. In addition, the Coast Guard interdicted 16 illegal aliens.
- Calendar Year statistics to February 28, 1985:

Coast Guard Only:

Vessels Seized: 31

Contraband:

Marijuana from vessels - 231,282 pounds
Cocaine from vessels - 729 pounds

Arrests: 112

Aliens:		
	140	Haitian
	10	Other
	150	Total

Assistance To Other Agencies:

Vessels Seized: 10

Contraband:

Marijuana from vessels - 57,809 pounds
Cocaine from vessels - 20 pounds

Arrests: 21

NOTE: Some of the figures used in this summary are estimates and may change as the final counts are provided.

LAW ENFORCEMENT ACTIONS

February 16 - February 28, 1985

- On February 17, 1985, CGC DECISIVE intercepted the 60 foot fishing vessel, LATIN MARU NO. 3, in the Yucatan Channel. At first the vessel claimed Japanese registry, but later changed to Colombian. The vessel was declared stateless because of the conflicting claims. The vessel refused to stop and was boarded while underway by two boarding parties, with DECISIVE abeam at 50 yards. The boarding parties met some physical resistance from the LATIN MARU NO. 3 crew, but it was quickly controlled with no injuries. The crew also attempted to scuttle the vessel by cutting hoses and opening valves, but the damage was repaired and flooding controlled by personnel from DECISIVE. Four Colombian citizens were arrested and the vessel seized when 34,640 pounds of marijuana were discovered onboard.

- On February 18, 1985, CG STATION LAKE WORTH INLET intercepted the 18 foot U. S. pleasure craft, ST. ANTRE, five nautical miles northeast of Jupiter Inlet, Florida with nine illegal Haitian migrants onboard. The migrants were remanded to the INS and the vessel was turned over to Customs.

- On February 19, 1985, CGC GALLATIN intercepted the 45 foot fishing vessel, SABRINA II, in the Windward Passage after a Coast Guard patrol aircraft observed the vessel's crew jettisoning 2,500 pounds of marijuana. The vessel claimed Colombian registry, but after Colombia refuted the claim, it was seized as stateless and four Colombian citizens were arrested.

- On February 20, 1985, CGC SEA HAWK seized the 34 foot U. S. lobster boat, FL-8272-SH, 150 nautical miles southeast of Miami with 1,740 pounds of marijuana. Two Cuban citizens were arrested.

- On February 20, 1985, CGC GALLATIN intercepted the 45 foot motor vessel, MACES BAY, in the Old Bahama Channel. The vessel claimed Bahamian registry, but was seized as stateless after the Government of the Bahamas refuted the claim. The vessel rammed and attempted to foul the screw of GALLATIN, and finally was set on fire and abandoned by the crew. The vessel was declared a total loss and sunk by gunfire from GALLATIN. Four Bahamian and two Colombian citizens were arrested, and over 40,000 pounds of marijuana were destroyed with the MACES BAY.

- On February 22, 1985, CG BASE MIAMI BEACH seized the 18 foot U. S. pleasure craft, FL-2746-DW, ten nautical miles south of Miami with 300 pounds of marijuana. One U. S. citizen was arrested.

- On February 23, 1985, CGC SEA HAWK seized the 40 foot U. S. fishing vessel, LISA AND LESLIE, 150 nautical miles southeast of Miami with over 14,000 pounds of marijuana onboard. Four Cuban citizens were arrested.

- On February 24, 1985, CGC DALLAS seized the 66 foot U. S. motor vessel, STAR TREK, in the Windward Passage with over 20,000 pounds of marijuana. As it was being towed, an electrical fire started on board and spread to the marijuana cargo and fuel tanks. The vessel was cast adrift, declared a total loss, and eventually sunk by gunfire from DALLAS. Seven U. S. citizens were arrested.

- On February 25, 1985, CGC CAPE SHOALWATER seized the 25 foot U. S. sailing vessel, PORK CHOP, 20 nautical miles southeast of West Palm Beach, Florida with 700 pounds of marijuana. Two U. S. citizens were arrested.

- On February 27, 1985, CG BASE MIAMI BEACH seized the 18 foot U. S. pleasure craft, FL-0359-BV, in Miami after 150 pounds of marijuana were discovered in a hidden compartment. One U. S. citizen was arrested.

- On February 28, 1985, CG STATION LAKE WORTH INLET seized the abandoned 24 foot U. S. pleasure craft, FL-0794-DW, ten nautical miles northeast of West Palm Beach, Florida when marijuana residue was discovered onboard.

- On February 28, 1985, CG STATION ISLAMORADA seized the 31 foot U. S. cabin cruiser, FL-9000-AN, five nautical miles east of Key Largo with 2,080 pounds of marijuana. Two U. S. citizens were arrested.
- On February 28, 1985, CGC DALLAS intercepted the 43 foot Haitian fishing vessel, MEDOR, in the Windward Passage with seven illegal Haitian migrants onboard. The vessel and migrants were returned to Port-au-Prince.

COAST GUARD INVOLVEMENT IN CURRENT ADMINISTRATION INITIATIVES

February 16 - February 28, 1985

- On February 27, 1985, a member of the Office of Operations staff briefed members of the President's Commission on Organized Crime about the Coast Guard's drug interdiction efforts.

OFFICE FOR COUNTER TERRORISM AND EMERGENCY PLANNING

STATEMENT OF AMBASSADOR PARKER BORG, ACTING DIRECTOR, OFFICE FOR COUNTER TERRORISM AND EMERGENCY PLANNING

PREPARED STATEMENT

Senator LEAHY. Who is speaking about terrorism here?

Mr. BORG. I am.

Senator LEAHY. We will insert your prepared statement in the record at this point, after which we will have questions.

[The statement follows:]

PREPARED STATEMENT OF AMBASSADOR PARKER W. BORG

ACTING DIRECTOR

OFFICE FOR COUNTER-TERRORISM AND EMERGENCY PLANNING

Mr. Chairman and members of the committee:

Over the past few years, the Administration with the support of the Congress has developed and inaugurated a number of new programs designed to deal with various aspects of the terrorist threat. Today I am here to submit for this committee's consideration the Fiscal Year 1986 budget request of $ 5 million for one of these programs, the Anti-Terrorism Assistance Program, which falls under the responsibility of my office, the Office for Counter-Terrorism and Emergency Planning. This is the same funding level as for 1985.

The Anti-Terrorism Assistance Program is designed to further our policy of combatting terrorism by strengthening the capability of like-minded governments, both on their own and in cooperation with us. Our goal is to emphasize international cooperation and reinforce the principle that to combat terrorism the primary role rests with responsible, modern, and effective civilian authorities. By means of this bi-lateral assistance we are aiding the same civilian authorities who are responsible for the protection of American business, and our diplomatic, and military installations and personnel. In addition to present activities conducted under the authorizing legislation, we are seeking additional authority to allow transfer of limited amounts of defense items for Anti-Terrorism purposes.

I would like to report on our progress. Implementation of the ATA Program began on December 31, 1983 with a notification to selected American embassies, authorizing them to approach their host governments with an offer to participate. The governments approached were selected in accordance with the criteria specified in the authorizing legislation, with notification sent to Congress. Additional participating countries have been added over the past year.

The first delegation -- from Costa Rica -- arrived in the United States in April 1984 for a two-week seminar. The Costa Rican Delegation was led by the country's Second Vice President, which shows how seriously they viewed the problem and how enthusiastically they responded to our initiative.

Since that beginning we have started programs with sixteen additional countries, and have firm commitments from five others whose delegations are scheduled to arrive in the next few months. It takes time to build up momentum in this type of activity, but there has been a strong beginning. We expect to conduct exchange and training programs with upwards of thirty-five governments by the end of 1985.

The growing interest in the program has been encouraging, but we are more enthusiatic about the dialogue it has permitted with other states on questions of combatting terrorism. These first activities have been helpful in increasing the priority accorded to combatting terrorism as well as producing a closer relationship between the U.S. mission and host government security personnel.

Other benefits are many and have already begun to appear:

-By casting our net widely and rapidly we have established or expanded cooperative relationships with a number of countries which are or appear about to be threatened seriously by terrorism. For example, we began to solicit participation in Western Europe early last year before the current rise in the threat level there.

-We are expanding our working relations with a wider range of foreign officials, as evidenced by the composition of the foreign delegations which have visited the U.S.

-Our efforts to obtain broad policy and program coordination with selected countries are reinforced by offering concrete assistance.

-The program encourages participating governments to provide greater security to U.S. officials and facilities by showing appreciation for their efforts to date, and by enhancing their capability by the provision of relevant training.

-U.S. officials are exposed to foreign experience and methods.

-Broader USG interests in selected geographic areas are supported by civilian sector assistance complementary to other USG military and political programs.

-Cooperation between U.S. federal agencies and between federal and local law enforcement organizations is fostered by participation in programs for our foreign visitors.

-We are using the ATA Program to expand cooperation between the federal government and the private sector.

With your permission Mr. Chairman, I would like to submit for the record the first annual report of this program.

Mr. Chairman, I would be pleased to answer any questions you or member of the committee might have.

DEPARTMENT OF STATE

REPORT TO THE CONGRESS

ON

THE ANTI-TERRORISM ASSISTANCE PROGRAM

MARCH 5, 1985

On Nov. 13, 1983 the Congress authorized the President to establish the Anti-Terrorism Assistance Program to be operated by the Department of State. Within the Department of State, responsibility for the Program was assigned to the Office for Counter-Terrorism and Emergency Planning.

The Anti-Terrorism Assistance Program is designed to further the United States policy of combatting terrorism, by strengthening the capability and determination of like-minded governments to combat terrorism, both alone and in cooperation with the United States and other governments. In doing so, the program is very highly focused upon training a relatively small number of personnel from appropriate civilian agencies of each country approved for participation. It is focused not only upon improving their technical skills and knowledge but also upon imparting to them knowledge of how the agencies of the United States Government and local law enforcement agencies employ modern, humane techniques in dealing with such potentially sensitive and dangerous problems as hostage rescue, VIP protection, etc. There is usually an important bonus to the United States in the form of intensified contacts between the security officials of foreign countries who receive training under the ATA program and US diplomatic missions in those countries; often these officials are those directly responsible for the security and protection of US installations and personnel.

Implementation of the Program began with a notification to selected embassies on December 31, 1983. The selection criteria used included those specified in the legislation establishing the Program and involved clearance by the Department of State's Bureau of Human Rights and Humanitarian Affairs. Additional potential participating countries have been added over the past year. In all cases the Congressional notification procedures contained in the establishing legislation were fully complied with.

Operations in calendar year 1984 involved contacts at various levels with over fifty governments and resulted in active exchange and training programs with fifteen governments. Five new governments have committed themselves to beginning programs in early to mid-1985. Already confirmed training programs for 1985 could involve upwards of 500 foreign government officials attending Anti-Terrorism programs in the US, in addition to any brief training and consultation programs conducted outside the US. Ongoing discussions with a number of other governments indicate that the total number of persons trained in 1986 will be at least equal to 1985, and that requests for training could be for substantially higher numbers of personnel.

The program has generally followed a three phase approach:

-Phase I: an executive-level seminar consisting of a two-week program during which senior officials from the participating government visit the headquarters and training facilities of US federal, state and local government agencies with responsibilities for combatting terrorism in the US. The objectives of the seminar are to:

- acquaint the participating government with US policy, tactics and organization;
- inform the US Government generally of the participating government's policy, organization, capabilities and needs;
- provide a foundation for follow-on programs (particularly in the training area) which can be worked out between the US and the participating governments after the completion of the seminar.

- Phase II: this involves the return visit of a small US delegation for the purpose of discussing and agreeing upon follow-on activities, particularly training programs. The delegation is headed by a State Department officer who is usually accompanied by representatives of other US or local government agencies cooperating in the ATA.

- Phase III: this is the training and/or professional exchange phase. Training courses provided under this portion of the program normally take place within the United States and are conducted by a variety of federal, state, local and professional organizations which provide this type of training to their own security personnel.

Since April 16, 1984, when the first participating group arrived in the US from Costa Rica, 12 delegations representing 17 countries with a total of 152 individual participants have attended the Phase I Executive Seminar. Experience has already shown that even the exposure to Phase I is helpful in increasing the priority accorded to combatting terrorism by the participating government as well as producing a closer working relationship between the US mission and host government security personnel. Especially in the case of Italy, and we expect in the case of the United Kingdom, but to some degree with all other delegations, visiting officials in the Executive Seminar were able to impart valuable experiences and techniques to their American counterparts.

The following countries have participated in Phase I to date:

Costa Rica
Liberia
Ecuador
Jamaica
Egypt
Members of the Organization of Eastern Caribbean States (OECS): Antigua, Dominica, St. Kitts, St. Lucia and St. Vincent
Grenada
Thailand
Turkey
Portugal
Italy
Cameroon
Tunisia

The following governments have firmly committed themselves to attend in 1985:

United Kingdom
Belgium
United Arab Emirates
Denmark

Phase II meetings took place during 1984 with the governments of Costa Rica, Jamaica, Egypt, Antigua, Dominica, St. Kitts, St. Lucia and St. Vincent. To illustrate the broadly based nature of phase II discussions, the delegation to Egypt, for instance, included representatives from the Department of Transportation, the Bureau of Alcohol, Tobacco, and Firearms and the State Department's Office of Security . The other agency representatives travel under State Department authority.

Phase III, the actual training phase, is developed in accordance with arrangements discussed by a Phase II team. The first Phase III programs were conducted in December, 1984 and involved 38 officials from Costa Rica; 22 of whom attended a one week course in civil aviation security at the Transportation Safety Institute in Oklahoma City, while the other 16 attended a five day course in analytic techniques for the investigation of terrorist crimes given by the International Association of Chiefs of Police in Orlando, Florida. These and succeeding courses were contracted for and financed by the ATA program. We expect a geometric increase in the number of foreign government officials involved in the ATA program in 1985 and 1986 as Phase III expands, both with respect to the number of countries and the number of specific programs. Definite commitments for Phase III programs for 1985 are contained in a classified annex to this report.

We began the program in 1984 by a large-scale solicitation of participation from over fifty governments, largely concentrating on developing countries. We are setting tighter priorities in 1985, concentrating on those countries where there is a high threat to significant United States interests or where there is a policy need to encourage more cooperation, or both. We have also been paying closer attention since mid-1984 to improving coordination within the USG and with other governments (e.g. UK, FRG) with similar training programs.

A complete list of countries to which we have offered participation in the ATA program, and the status of their participation, is being forwarded in a classified annex together with complete material on three of the most active programs: Costa Rica, Jamaica and Egypt. These show the range and quality of the officials involved and the types of training actually being provided.

The potential benefits to the United States of the ATA program are many and varied and have already begun to appear:

- by casting our net widely and starting the ATA programs rapidly we have been able to establish cooperative relationships on the issue of terrorism with a number of countries in regions which have turned out to be or appear about to be seriously threatened by terrorism. For example,
    - We began to solicit participation in the program from Western European countries early last year before the current rise in the threat level in Europe. We started the program with Portugal before FP-25 began its attacks on US and NATO targets. A State Department official was in Brussels discussing the ATA program with the Belgian Government the day the NATO pipeline was bombed last December.
- it enables us to expand our working relations with a wider range of foreign officials than our usual business brings us in contact with, as evidenced by the composition of foreign government delegations which have visited the U.S. at our invitation (see the classified annex). These contact opportunities are reinforced by

the practice of using embassy officers (usually security officers) as escort officers for visiting delegations.

- it reinforces our efforts to obtain broad policy and program coordination with selected countries in this area by offering concrete cooperation and training programs. Examples are Italy, Portugal and Egypt.
- it encourages participating host governments to provide greater security to US officials and facilities by showing appreciation for their efforts to date, and by enhancing their capability by providing relevant training. Our ongoing programs in Egypt and Turkey are particularly good examples of this.
- it provides US Government officials with an opportunity to be exposed to successful foreign methods. The Italian delegation gave a number of useful briefings to selected audiences of American federal and local law enforcement officials.
- it supports broader USG interests and programs in selected areas, such as the Caribbean area, by providing complementary civilian assistance to US military programs in support of threatened governments.
- it expands cooperation between US federal agencies with responsibilities in this area, e.g. Bureau of Alcohol, Tobacco and Firearms, US Marshals Service, and US Customs Service, in addition to the more obvious agencies such as the FBI.
- it expands cooperation between federal and local law enforcement organizations such as the metropolitan police departments of Washington, Knoxville, Chicago, New York and Los Angeles.
- it encourages cooperation between federal agencies and concerned companies in the private sector, such as the recent discussions with the governments of Kuwait and Greece on civil aviation security which were conducted by a delegation consisting of representatives from PanAm and TWA as well as State Department and FAA officials.

With regards to the financial aspects of the Program, the Congress appropriated $2.5 million for FY 1984. During the course of this fiscal year we obligated $971,244 and returned $1,529,756 of unobligated funds to the Treasury. This shortfall was due to the inevitable delays involved in making a new program operational. Initial funding was not received until January 1984, full funding not until March, and we were not able to fully staff our office until July. Several of the participating agencies had not completed their own internal procedures for determining reimbursement for their incremental costs. Finally, and most important, the response from the potential participating countries to a new and politically sensitive bilateral program was understandably cautious.

The Congress appropriated $5 million in FY 1985. Disbursement for the first quarter of the fiscal year has been slow but is picking up speed as the program itself picks up momentum. (The holiday season caused a pause in activities as few countries wished to send delegations to Washington in December.) The pace of activities is picking up rapidly and therefore so is the disbursement rate. A growing number of courses, seminars and training programs are being requested and scheduling is proceeding apace. This is particularly true as a number of countries move into Phase III. We are confident of utilizing effectively the full appropriation for FY 1985.

As this program comes into better focus and we gain greater experience in working closely with other governments on anti-terrorism, it becomes increasingly clear how badly needed this program really was, and what an important contribution to USG national interests was made by Congress in approving it. It is evident that the growing threat from international terrorism can only be fought internationally, with the active cooperation of other governments. It is also clear that international terrorism will be with us for the foreseeable future. Only by tough, tenacious, concerted action over a considerable period of time can this scourge be brought under control. That is why we have submitted a proposal to repeal the so-called sunset clause which would have automatically ended the ATA program. That is also why we are looking for ways to make the program even more effective, such as expanding its scope to include more equipment and other resource transfers.

In most countries, the civilian security agencies occupy the front line in the fight against terrorism. Thus it is evident that the US is a prime target of terrorists and that in many countries the safety and security of United States installations and personnel, both government and private, depend heavily upon the civilian security services. Yet often these local forces are not well-trained, and are poorly equipped. Frequently, they receive no outside assistance, are regarded as step-children, and are given low priority with regard to equipment and other resources as compared to the regular military forces. Ignoring them in this way can have a disastrously negative effect on the morale, discipline and organization and capabilities of the civilian forces in fighting terrorism. Yet in some countries, the government priorities and political realities are such that the only way to correct this situation is through US assistance.

Until this program began, there was only a very limited capability anywhere in the USG to provide assistance to civilian agencies of other governments and the available assistance was not always compatible with the objectives of anti-terrorism (spelled out in the 1983 legislation establishing the ATA program). As discussed above, the training part of the program is already proving its value, vindicating the judgment of those who brought it into being, enhancing the effectiveness and will of the forces being trained, and generating increased cooperation with the United States. Now the time has come to look also at supplying necessary equipment, with the focus on limited amounts of that simple, easily maintainable, low-cost equipment best suited to doing the job. The safeguards associated with the release of any equipment on the munitions control list would carefully followed and the use of any such equipment would be carefully monitored. We would consult closely with Congress before providing equipment to particular countries. The lack of proper equipment reduces overall effectiveness and the technical ability to conduct what are clearly dangerous, politically sensitive operations. By supplying such equipment the United States can not only significantly enhance the general capability of effective anti-terrorist action by foreign civilian agencies, but can also obtain the benefit of an increased desire by these forces to work closely with us and, if need be, protect our installations and personnel from terrorist attack.

We are thus proposing in the FY 1986 foreign assistance authorization legislation the repeal of section 573 (d)(4) of the Foreign Assistance Act of 1961, as amended, which prohibits the transfer of defense articles and services as part of the Anti-Terrorism Assistance Program. The repeal of this provision will make it possible to implement in a more effective manner the legislatively stated purpose of the ATA which is "to enhance the anti-terrorism skills of friendly governments by providing training and equipment to deter and counter terrorism."

Attachment: Status Report on Active Participants

ANTI-TERRORISM ASSISTANCE PROGRAM

ACTIVE PARTICIPANTS

Country	Status
Costa Rica	Phase III begun 12/10/84.
Egypt	Phase III begun 1/8/85.
Jamaica	Phase III begun 2/25/85.
Antigua	Phase III begun 2/28/85.
St. Kitts	Phase III begun 3/1/85.
Dominica	Phase II completed 12/12/84. Phase III anticipated Spring 85.
St. Lucia	Phase II completed 12/10/84. Phase III anticipated Spring 85.
St. Vincent	Phase II completed 12/14/84. Phase III anticipated Spring 85.
Grenada	Phase I completed 7/27/84. Phase II scheduled 3/85. Phase III anticipated Spring 85.
Turkey	Phase I completed 9/28/84. Phase II scheduled 3/11 - 13.
Portugal	Phase I completed 10/5/84. Phase II anticipated 4/85.
Italy	Phase I completed 11/17/84. Return visit by US delegation anticipated mid 1985.
Liberia	Phase I completed 5/18/84. Phase II anticipated mid 1985.
Ecuador	Phase I completed 6/8/84. Phase II anticipated mid 1985.
Thailand	Phase I completed 7/27/84.
Cameroon	Phase I completed 1/17/85.
Tunisia	Phase I in progress; to be completed 3/8/85.

COUNTER TERRORISM PROGRAM

Senator LEAHY. Partly because I know everybody wants to go, let me ask you two questions.

First, are the Contras practicing terrorism in their activities in Nicaragua? And second, the Miami Herald recently reported, on February 8, 1985, that the Italian Government gave the Nicaraguan Government a list of left wing Italian terrorists which are believed to be living in Nicaragua. According to the article the Sandanistas knew nothing about the Italians but said they would investigate.

The first question, are the Contras practicing terrorism as we normally define it? And second, do you have any evidence that those Italian terrorists are currently living in Nicaragua?

Mr. BORG. These are not questions on our program per se, but I will try to answer. With regard to the Contras and their activities, this is not something that we have been working on in our office.

We certainly have great concern about terrorist acts anywhere in the world. We try to avoid defining groups as perpetrators of terrorism. We emphasize the acts themselves. With regard to the Contras per se, that is not——

Senator LEAHY. You don't have anybody in your department that could answer that question?

Mr. BORG. Not within our office.

Senator LEAHY. Within your office?

Mr. BORG. No.

Senator LEAHY. Would that be the same on the other question?

COLLABORATION WITH ITALY ON QUESTION OF TERRORISM

Mr. BORG. With regard to what the Italians had said, we have worked very closely with the Italian Government on the whole issue of terrorism. We are acquainted with the claims that the Italians have made about their Italian terrorists in Nicaragua. They have also claimed there are some in Costa Rica and claimed large numbers in France.

When we have checked with these governments—when we have checked with Costa Rica, for example, they have said, "When the Italians have talked with us or sent us requests, and we find the information that somebody passed through here on a plane but we can't locate them."

I have read the report also in the Miami Herald about the Italians and the others who are in Nicaragua. It is a very, very interesting situation. But there is nothing I can really say beyond that.

AMERICAN FOUNDATION FOR AFRICAN DEVELOPMENT

Senator LEAHY. I have a couple of other questions that are not really directed to you. They are appropriate for closed sessions.

Unless you want to give us all something really super to liven up the hearing, this concludes the hearing today. We will jump from terrorism to the Peace Corps tomorrow at 2 p.m. The budget questions are for the Inter-American Foundation and the African Development Foundation.

I think it has been a worthwhile hearing. This particular Appropriations Subcommittee I find to be one of the most worthwhile in the 10 years that I have been in the Senate.

Mr. THOMAS. Senator, if I get the resources that I have asked for, I will believe it has been very worthwhile.

Senator LEAHY. Listen, foreign aid in the last 5 years has really skyrocketed. Anybody coming before this subcommittee ought to be happy. Most of my constituents back home want to figure out how they can set up an offshore base so they can apply for foreign aid. That is the only way they figure they will ever get any money.

SUBMITTED QUESTIONS

Mr. Borg, the subcommittee has additional questions which we will submit for your response. They will appear at this point in the record.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR KASTEN

ANTI-TERRORISM AND RELATIONS WITH OTHER STATES

Senator Kasten: The terrorist war against the United States has taken on a new twist, with terrorist organizations in the Middle East threatening death to Americans if we exercise our responsibility in the Security Council by vetoing resolutions condemning Israel.

This is ominous, of course, because these terrorist organizations have shown their willingness to murder large numbers of people.

Despite this fact, many of our so-called friends voted against us earlier this week on a resolution, totally unbalanced, condemning Israel's action in southern Lebanon. Some of these so-called friends receive substantial assistance from the United States, and I note that some of them are even participating in the anti-terrorism assistance program, despite the fact that their very action obviously encourages terrorists — specifically France and Egypt.

Surely if the terrorist organizations follow through with their threats, the blood of Americans will be on their hands, and yet we have large requests, including yours, to provide foreign assistance to these countries.

The report you submitted to Congress on March 5, indicates that Egypt and Thailand participated in phase 1 of the program. Will you be saying anything to those countries about how their action in the United Nations encourages terrorism and is contrary to the program that they are participating in and which you head?

Ambassador Borg: We carry on a continuing dialogue with friendly countries, and particularly those which participate in ATA programs, on the subject of terrorism, and its causes. They all know our position on the Lebanese resolution and why we vetoed it.

Senator Kasten: If, in fact, the terrorists follow through on their threat, and kill Americans as a result of our veto in the Security Council, could it not be argued that those who voted against us in effect participated in this terrorism, and therefore should be cut off as far as foreign assistance is concerned?

Ambassador Borg: Our primary purpose in extending ATA is to curb the growing threat of international terrorism. If we were to link this assistance to United Nations votes, it could be self defeating to our own interests. On the other hand, we monitor very closely evidence of direct or indirect support of terrorism as legal grounds for denying such assistance to any country.

Senator Kasten: What countries would you describe today as participating in or supporting terrorism?

Ambassador Borg: The Secretary has designated five countries as participatants or supporters of international terrorism in conformity with the law. They are Iran, Syria, Libya, Cuba and South Yemen.

Senator Kasten: Over half of your FY 1986 request is for Anti-Terrorism training and assistance ($2,583,000). You list types of training in your justification material. Could you give us some more detail on these courses?

DESCRIPTION OF TYPES OF ANTI-TERRORISM ASSISTANCE

Ambassador Borg: These training courses are similar or identical to courses provided to American officials to train them to deal with or prevent terrorist incidents. Examples of such courses would be identification of bombs and explosives, hostage negotiation, dignitary protection, building security and aviation security.

Let me note the range of courses provided by just two agencies as examples. The Department of Transportation's Transportation Safety Institute at Oklahoma City can provide courses not only in aviation security (including airport security, hijack incident management, sky marshal training, etc.) but highway security, seaport security and pipeline security as well. The Bureau of Alcohol, Tobacco and Firearms can present courses in bomb and explosive identification and post-blast investigative techniques.

Senator Kasten: You have stated in your justification material that you are planning on 15 executive seminars in FY 1986 -- 5 less than in FY 1985. What countries do you anticipate to be participating in these seminars? Why is there less interest in FY 1985?

Ambassador Borg: There is a finite number of eligible countries for the program and thus a finite number of executive seminars which can be scheduled. However, one country could be involved in as many as a dozen different training programs. Consequently we expect that the number of executive seminars will peak in FY-1985 and probably decline in FY-1986, while the number of training courses will increase continuously. Countries we expect to be participating in executive seminars in the near future include Colombia, Honduras, Belgium, Kuwait and Denmark. We also anticipate participation by a number of other countries we have approached (see the classified annex to our annual report).

Senator Kasten: Can you give us more detail on what the training assessment teams do? Besides designing training programs, do they also make sure that once trained, this knowledge is used for the purposes intended?

Ambassador Borg: Training assessment teams, which are composed of representatives of several US agencies, meet both with officials of the US Embassy in a participating country and with host government officials to determine training programs appropriate and desired by the country and to match these with training opportunities available in the US. These teams, which are headed by a State Department official, are composed of representatives of agencies which provide training in areas of interest expressed by the participating government.

In the field the US Embassy is intimately involved in the program from the very beginning. It decides on whether to invite the host government and it works with the government in the selection of participants. In many cases an Embassy officer will accompany a delegation as an escort officer. We rely on the embassy for followup action on the program which would include monitoring to ensure that the knowledge is used for the purposes intended.

PARTICIPATION OF ALLIED GOVERNMENTS

Senator Kasten: You state in your justification material that, among others, Italy, the United Kingdom, and Belgium are planning to participate in executive seminars during FY 1985. Will these countries be picking up their expenses for their participants?

Ambassador Borg: Italy and the United Kingdom have already participated in the program and they paid their own expenses. We expect Belgium to follow suit.

Senator Kasten: Now that your program is functioning, have you received interest from Western European countries who would like to join in this effort -- and help defray the cost?

Ambassador Borg: We have advised our Summit Seven allies about the program and two - Italy and the United Kingdom - have already participated in executive seminars. However, we must keep in mind that our ATA program is a pioneering one. None of our allies has as yet even considered anything like our program. We believe they intend to wait and see how our program works out before considering joining in with us in joint training efforts.

QUESTIONS SUBMITTED BY SENATOR RUDMAN

PROGRAM GOALS

Senator Rudman: When this program was first approved it was said that cooperation sought between countries was to take many forms, to include

- exchange of information

- tighter controls on the movement of weapons and explosives
- more effective extradition procedures
- discouraging support for terrorist groups.

How successful have we been in achieving these goals?

Ambassador Borg: The goals you cite are the goals which were established for the Administration's "anti-terrorism package" legislation submitted to the Congress in April 1984. You may recall that this four-part package included legislation that would (a) make it illegal to assist terrorist groups, (b) permit US ratification of the Montreal Convention on aircraft hijacking, (c) permit US ratification of the Convention against hostage taking and (d) permit the payment of rewards for information leading to the arrest of terrorists. Congress passed legislation approving (b), (c) and (d) but not (a). We are now in the process of implementing the provisions of the legislation approved, so that we cannot as yet give a definitive report on how successful we have been in achieving these goals.
The goals for the ATA program, as outlined in our 1984 and 1985 Congressional submissions, are:

- to enhance the law enforcement anti-terrorism skills of friendly countries by providing training and equipment to prevent terrorism;

- to protect US overseas missions and private American citizens from international terrorism by helping friendly governments improve their law enforcement anti-terrorism capabilities;

- to strengthen our bilateral ties with friendly governments by offering concrete assistance;

- to enhance cooperation in anti-terrorism with developed countries by cultivating ties between their law enforcement elements and the US Government; and

- to increase respect for human rights by foreign law enforcement forces by exposing them to modern and humane police methods.

We would note that although our program has been in operation only one year we are already beginning to see results in terms of several of our objectives, particlarly those concerning strengthening of bilateral ties in this field with friendly governments and the enhancement of cooperation with developed countries in this area. As ATA programs move into a greater emphasis on Phase III training courses we expect to see increased fulfilment of our other objectives as well.

COOPERATION WITH OTHER STATES

Senator Rudman: To what extent are we sharing with other governments suffering similar terrorist attacks---e.g.

UK, Israel, France? Is there more to be done? If so, how do we plan to do it?

Ambassador Borg: We strongly support cooperation in combatting terrorism including sharing of information with friendly countries wherever possible, commensurate with protection of sensitive collection sources and methods. UK, Israel and France are among those countries with which we developed excellent relationships along these lines.

Senator Rudman: Although the exchange of information can be unclassified, it would seem that the source of data on terrorist groups, plans and operations would be very sensitive; has this been a factor in responsiveness or lack thereof on the part of any countries? Which ones? In a classified response for the record, if there are any problems or agreements, please detail the extent of these by country, if these circumstances exist.

Ambassador Borg: It is certainly true that sensitive information to be exchanged must be considered carefully in order to protect collection sources and methods. I do not believe, however, that exchanging information, taken in isolation from other factors, has been a significant factor in the responsiveness of other countries in cooperating with us to counter terrorism. The degree of their responsiveness is more likely to be based on their estimation of their own political and economic interests involved and the degree to which those interests might be jeopardized by responding to US demarches for cooperation in counter terrorism actions.

TRANSFER OF DEFENSE ARTICLES AND SERVICES

Senator Rudman: You propose changing legislation (repeal Section 573(d) of the Foreign Assistance Act of 1961, as amended) regarding the transfer of defense articles and services to permit the supply of "necessary" equipment and you indicated that some of this equipment will be from the munitions control list. Would you be more specific on the type of equipment you have in mind, whether we would loan, give or sell this equipment to the individual law enforcement entities, what type, if any, restrictions would be placed on those elements sharing this equipment with the individual country's military force. Furthermore, I am a little concerned that you may be suggesting that there is a technological fix to the terrorist problem, and depending on the terms of this endeavor, I would like to know how you intend to ensure that we do not exacerbate the existing problem of our large presence overseas by needing to provide personnel to maintain this equipment.

Ambassador Borg: We are making this request on the basis of the experience we have gained during the first year of operation of the Anti-Terrorism Assistance Program. Civilian police authorities are the first line of defense against terrorists, and they are usually the major line of defense for our embassies and private Americans living outside the US. The Anti-Terrorism Assistance Program was created so that we could provide assistance to these police and related civilian authorities. We are already authorized to provide training and limited types of appropriate equipment such as communications, bomb disposal, and airport security equipment.

However we are finding that certain other types of equipment are often necessary if police forces are to perform these tasks. This material is listed on the US Munitions List and therefore prohibited for inclusion in our overall assistance program to selected countries. Therefore we are now asking for authority to arrange for the transfer of limited amounts and types of defense list items.

We are not seeking a broad exemption from the munitions export restrictions, nor are we intending to provide extensive supplies of defense items. We do however see a need to be able to provide limited amounts of specialized items of the type which are normally included in the inventories of civilian anti-terrorist organizations. Transfers of defense items would not occur as a standard component of country programs but rather on a case-by-case basis, when such transfers can be justified by the specific situation.

We are not asking for blanket authority or for exemption from all items covered by the Munitions List. We only wish authority to consider the transfer of items contained in the following categories of the List:

Category I - firearms [small arms]
Category III - ammunition [for Category I items only]
Category IX - military training equipment [related to anti-terrorism programs]
Category X - protective personnel equipment [body armor]

These items are those contained in the regular inventory of civilian anti-terrorist units in the United States and elsewhere. It is only these types of items that we would consider.

Since this is not hi-tech equipment it would not require US personnel for overseas maintenance.

Senator Rudman: One additional question regarding legislative changes, after one complete year of operations, what is the Department's position relating to Section 660 of the Foreign Assistance Act of 1961, as amended?

Ambassador Borg: The Department continues to believe that repeal of Section 660 is not necessary.

QUESTIONS SUBMITTED BY SENATOR INOUYE

EUROPEAN PARTICIPATION

Senator Inouye: You have noted that your office has solicited Western European participation in the Anti-Terrorism Program. Have any European countries indicated an interest in participating?

Ambassador Borg: Four countries - Portugal, Turkey, Italy and United Kingdom - have already participated in the executive seminar and two more - Denmark and Belgium - have made commitments to do so in the near future.

SHARING PROGRAM COSTS BY PARTICIPATING GOVERNMENTS

Senator Inouye: Have any indicated an interest in contributing to the program?

Ambassador Borg: Yes, in the sense of paying all or most of the costs of their own participation. However, in the cases of countries with extensive experience in this problem - particularly Italy and the United Kingdom - participation resulted in a highly useful exchange of information with US law enforcement officials.

With regard to the possibility of our allies participating in a joint program to train lesser developed countries, I would note that the United States has pioneered international programs in this field because our own problems have been largely international whereas our allies are fighting primarily a domestic problem and trying to put their own houses in order.

Senator Inouye: Would you propose to provide training on a grant or reimbursable basis?

Ambassador Borg: Whether we provide training on a grant or reimbursible basis depends on capacity to pay. We encourage all participants to pick up costs to the extent possible. In most cases, a participating country is requested to provide international travel to get its representatives to and from the US. Once they are in the US the Program funds domestic travel, per diem and training costs. In the case of a wealthier country we would request that country to pick up a greater portion or all of these costs.

FEDERAL LAW ENFORCEMENT TRAINING CENTER

Senator Inouye: Please describe in detail the activities of your program at the Federal Law Enforcement training Center at Glynco, Georgia.

Ambassador Borg: We use FLETC in several ways. During the executive seminar phase, we bring senior foreign officials there to show them the facility and training courses taking place at the time. In addition, phase III training courses are given at FLETC, either by the FLETC staff or by other government agencies making use of the facility. For example, the Bureau of Alcohol, Tobacco and Firearms, has agreed to conduct courses in bomb recognition and post-blast investigation for our program at FLETC.

COMMODITIES PROGRAM

Senator Inouye: What is the commodity exchange program? What is exchanged? Does the United States receive commodities?

Ambassador Borg: The equipment and commodities included under this category would include instructional material and films and such items as airport security devices and bomb disposal gear which have been furnished in connection with training courses. We do not foresee an exchange of such equipment nor do expect to receive equipment or commodities from participating countries.

PROGRAM MANAGEMENT INCREASE

Q. Senator Inouye: Why is your budget for program management increasing by 62 percent?

A. Ambassador Borg: The reason is that by FY 1986 we anticipate that the major thrust of our program will pass from the Phase I senior seminars (a one-time program dealing with an average of 12 senior officials) to Phase III training programs. Phase I seminars are more or less similar introductory programs while Phase III training programs are more varied and must be tailored to the specific requirements of each participating country. One country could be participating in, for example, ten separate training courses with an average participation of 20 middle managers and instructors apiece. Thus we estimate we will require two additional program officers and one new secretary to manage this vastly increased volume of participation.

Senator Inouye: Why does the addition of two program officers and one secretary cost $200,000? What is the salary for each of these positions?

Ambassador Borg: The $200,000 increase in the Program management element of the Program breaks down into $9,000 for mandatory increases in the 1986 base and $191,000 for salaries and support costs for the three additional personnel.
We estimate the salaries and benefits for the two program officers at $36,400 each and that of the secretary at $19,100 for a total of $91,900 minus a lapse factor for the time it takes to recruit them, for a total estimate of $84,000. This leaves $107,000 for the resulting increases in expenditures for the office for rent, travel and

transportation, office equipment and supplies and the like. Some of these expenditures, e.g. office equipment, will be of a one-time nature.

QUESTIONS SUBMITTED BY SENATOR DECONCINI

LEBANON SITUATION

Senator DeConcini: I am extremely concerned about the possibility of retaliation against U.S. personnel and facilities in the Middle East as a result of the U.S. veto of an anti-Israel Security Council resolution on March 12. I have expressed my concern to the Secretary of State along with my recommendation that if we are not completely confident about our anti-terrorism measures in Lebanon, we ought to give extremely serious consideration to pulling all of our people out of Lebanon.

Can you tell me some of the additional measures that are being taken to prepare specifically for this recent threat?

Ambassador Borg:

A classified response will be provided separately.

Senator DeConcini: How many Americans are currently in Lebanon? Are there plans to reduce that number?

Ambassador Borg:

A classified response will be provided separately.

Senator DeConcini: Have our intelligence agents picked up any information on the possibility of increased terrorist activities in the Middle East?

Ambassador Borg: We rely on many indicators in trying to establish the level of terrorist activity in the Middle East and elsewhere. They include intelligence information but also the number of attempts made in a given period. As Amb. Oakley and I testified to the Congress recently, terrorist activity is up unfortunately world wide. Since the United States is a leading target of international terrorist activity, increased terrorist attacks against Americans in the Middle East are likely in the forseeable future.

SUBCOMMITTEE RECESS

Senator LEAHY. That concludes the hearing. Thank you, gentlemen, for your appearance today. The subcommittee is recessed.

[Whereupon, at 3:35 p.m., Thursday, March 14, the subcommittee was recessed to reconvene at the call of the Chair.]

FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1986

TUESDAY, MARCH 19, 1985

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 2 p.m. in room S-126, the Capitol, Hon. Robert W. Kasten, Jr. (chairman) presiding.

Present: Senator Kasten.

PEACE CORPS

STATEMENT OF LORET MILLER RUPPE, DIRECTOR, THE PEACE CORPS

ACCOMPANIED BY TOM WILSON, DIRECTOR, FINANCIAL MANAGEMENT

INTRODUCTION OF WITNESSES

Senator KASTEN. The subcommittee will come to order.

This afternoon we will be receiving testimony from Ms. Loret Miller Ruppe in support of the budget request for the Peace Corps; testimony in support of the administration's request for the Inter-American Foundation; and also the administration's request for the African Development Foundation.

We will begin now with the Peace Corps. Loret, we welcome you once again to our committee. We thank you for the work you are doing and commend you for your work as the Director of the Peace Corps. I think it is important to note you have elevated the Peace Corps to the status that many of us believe it deserves. I think you have done a terrific job. We enjoy working with you in support of your goals, and I am looking forward to continue working with you.

Your entire prepared statement will be made a part of the record, and you may summarize it, and then we will turn to questions.

[The statement of Ms. Ruppe follows:]

PEACE CORPS

PREPARED STATEMENT OF LORET MILLER RUPPE

DIRECTOR

MR. CHAIRMAN; MEMBERS OF THE COMMITTEE: IT IS A PLEASURE FOR ME TO APPEAR BEFORE YOU IN SUPPORT OF THE ADMINISTRATION'S REQUEST FOR APPROPRIATIONS FOR THE PEACE CORPS FOR FISCAL YEAR 1986. I ALSO WANT TO TAKE THIS OPPORTUNITY TO THANK YOU FOR YOUR GREAT SUPPORT IN THE PAST WHICH HAS ENABLED OUR AGENCY TO MOVE FORWARD AND BETTER MEET OUR GOALS.

I HAVE JUST RETURNED FROM A TRIP TO AFRICA WHERE I HAD THE HONOR OF ACCOMPANYING VICE PRESIDENT BUSH ON HIS VISITS TO SUDAN, NIGER AND MALI. THE PURPOSE OF THIS TRIP WAS TO GATHER FIRST-HAND KNOWLEDGE REGARDING THE AFRICAN FOOD CRISIS AND TO SEE WHAT IS BEING DONE--THROUGH EMERGENCY AID AND LONG-TERM PROJECTS DIRECTED AT ALLEVIATING THE DEVASTATING SITUATION RAVAGING THAT CONTINENT AND ITS PEOPLES.

IN WESTERN SUDAN WE VISITED A REFUGEE CAMP WHERE 27,000 SUDANESE DROUGHT VICTIMS ARE RECEIVING U.S. EMERGENCY GRAIN. IN THE SAME AREA A SOPHISTICATED LONG-DISTANCE TRANSPORTATION SYSTEM DELIVERS SURPLUS AMERICAN SORGHUM AND WHEAT TO APPROXIMATELY 1.4 MILLION INHABITANTS OF THAT DROUGHT STRICKEN REGION. IN SUDAN IT IS ESTIMATED THAT AT LEAST A FOURTH OF THE 22 MILLION CITIZENS COULD RISK STARVATION.

THE PEOPLE OF SUDAN WERE SO EXTREMELY GRATEFUL FOR THE ASSISTANCE AMERICANS HAVE AND ARE PROVIDING. FATIH BASHIR BUSHARA, GOVERNOR OF KORDOFAN TOLD US, "THE PEOPLE OF THIS REGION WILL NEVER FORGET WHAT THE AMERICANS HAVE DONE FOR US."

IN NIGER, WE VISITED AN OFF-SEASON IRRIGATED AGRICULTURE PERIMETER, IN MARADI, WHERE RE-LOCATED INDIVIDUALS WORK ON FOOD SELF-SUFFICIENCY. ALSO WHILE IN MARADI MRS. BUSH AND I VISITED WITH PEACE CORPS VOLUNTEERS FROM NEARBY AREAS, INCLUDING ONE VOLUNTEER INVOLVED IN SEED MULTIPLICATION.

THE TRIP TO MALI WAS EXTREMELY IMPORTANT TO ME AS THIS COUNTRY IS TO BE THE FIRST COUNTRY FOR OUR NEW AFRICA FOOD SYSTEMS INITIATIVE. IN MALI VICE PRESIDENT BUSH MET AT GREAT LENGTH WITH PEACE CORPS VOLUNTEERS WHO SHOWED HIM FIRST HAND WHAT THEY ARE DOING IN THEIR LONG-TERM PROJECTS OF AGRICULTURE, ENERGY CONSERVATION AND RURAL DEVELOPMENT--ALL PROJECTS DIRECTED AT HELPING THE PEOPLE AT THE GRASS ROOTS LEVEL BECOME SELF-SUFFICIENT.

IN MALI I ALSO VISITED PEACE CORPS SITES IN MOPTI, SEVARE, FATOMA, BANDIAGARA, BAMAKO, QUELESSEBOUGOU AND BANAMBA. I WANTED TO SEE THE WORK OUR VOLUNTEERS ARE DOING IN PROJECTS RELATING TO AGRICULTURE, NUTRITION, HEALTH AND OTHER PROGRAMS DIRECTED AT ADDRESSING THE NEEDS OF THE MALIAN PEOPLE. MANY OF THESE PROGRAMS AND PROJECTS WILL BE DUPLICATED WHEN OUR AFRICA FOOD TEAMS BEGIN WORKING IN MALI NEXT YEAR.

I CAN TELL YOU THAT FROM WHAT I SAW BEING DONE AND WHAT STILL NEEDS TO BE DONE, OUR NATION AND THE FREE NATIONS OF THIS WORLD HAVE AN UNPARALLELED CHALLENGE AHEAD OF US. THERE IS NO QUICK FIX OR EASY SOLUTION TO THE AFRICA FOOD CRISIS. EMERGENCY RELIEF IS BEING RECEIVED AND IT IS GREATLY APPRECIATED, BUT ALONG WITH THE EMERGENCY RELIEF, WE MUST REALIZE THAT A COMMITMENT IS GOING TO HAVE TO BE MADE ON OUR PART TO PROVIDE THE LONG-TERM DEVELOPMENT ASSISTANCE SO URGENTLY NEEDED--DEVELOPMENT ASSISTANCE AT THE GRASS ROOTS LEVEL THAT WILL TRULY HELP THESE PEOPLE, HELP THEMSELVES.

RESPONSE TO AGRICULTURE APPEAL

THE PEOPLE OF AMERICA ARE READY TO MAKE SUCH A COMMITMENT. THEY ARE RESPONDING IN OVERWHELMING NUMBERS TO THE CALL FOR HELP IN AFRICA. OUR RECENT NATIONWIDE APPEAL FOR 600 AGRICULTURE AND AGRICULTURE RELATED VOLUNTEERS TO GO TO AFRICA TO WORK IN CURRENT PROGRAMS DIRECTED AT FIGHTING FAMINE HAVE PRODUCED ALMOST 17,000 INQUIRIES FROM AMERICANS OF ALL AGES. THEY HAVE COME FROM ALL WALKS OF LIFE, ALL EDUCATIONAL BACKGROUNDS, AND SHARE ONE COMMON DESIRE--TO HELP THOSE LESS FORTUNATE THAN THEMSELVES. THIS OUTPOURING OF GENUINE INTEREST SHOWS THAT AMERICANS ARE WILLING TO SHARE OF THEMSELVES, GIVE TWO YEARS OF THEIR LIVES, TO HELP IMPROVE THE WORLD WE LIVE IN.

600 OF THE APPLICANTS FROM THIS APPEAL WILL BE PLACED IN THE SPRING AND SUMMER

PROGRAMS TO FILL OUR CURRENT NEEDS FOR AFRICA. OTHER APPLICANTS FROM THE AGRICULTURE APPEAL WILL BE USED AS A TALENT BANK FOR FUTURE NEEDS IN AFRICA.

AFRICA FOOD SYSTEM INITIATIVES

THIS YEAR IN CONJUNCTION WITH OUR OTHER WORLD-WIDE GRASS ROOTS DEVELOPMENT PROGRAMS--WE WILL HAVE OVER 6,000 VOLUNTEERS AT END OF FY 85 WORKING IN 60 COUNTRIES--WE HAVE BEGUN A NEW PROGRAM WE CALL THE AFRICA FOOD SYSTEMS INITIATIVE.

THE AFRICA FOOD INITIATIVE PLANNED AS A LONG-TERM CAMPAIGN WILL HELP AS MANY AS 12 AFRICAN COUNTRIES REVERSE THE 20 YEAR DECLINE IN THEIR PER CAPITA FOOD OUTPUT. LIKE OTHER PEACE CORPS' AGRICULTURE PROGRAMS, IT IS AIMED AT HELPING SMALL FARMERS (WHO ARE RESPONSIBLE FOR THE VAST MAJORITY OF THE FOOD PRODUCTION) TO DEVELOP AND IMPLEMENT SELF-SUSTAINING FOOD PRODUCTION THROUGH THE USE OF FARMING TECHNIQUES AND PRACTICES ADAPTED TO LOCAL CONDITIONS, SKILLS AND RESOURCES.

THE FOOD INITIATIVE WILL CONCENTRATE IN THOSE PEACE CORPS COUNTRIES WITH THE GREATEST NEED THAT HAVE DEMONSTRATED A RECEPTIVITY TO GRASS ROOTS DEVELOPMENT AND A SOLID COMMITMENT TO COMPREHENSIVE NATIONAL FARMING PROGRAMS OFFERING HELP AND PRIVATE INCENTIVES TO THEIR SMALL FARMERS.

THE PROGRAM WILL BE CONDUCTED IN COLLABORATION WITH THE AGENCY FOR INTERNATIONAL DEVELOPMENT (AID), THE U.S. DEPARTMENT OF AGRICULTURE, HOST COUNTRY AGENCIES AND PRIVATE VOLUNTEER ORGANIZATIONS (PVO'S).

THE INITIAL PROJECTS WILL BEGIN IN MALI AND ZAIRE, BOTH LISTED AS COUNTRIES SERIOUSLY AFFECT BY DROUGHT AND FAMINE, AND EXPAND FROM AS MANY AS SIX (6) TO TWELVE (12) AFRICAN COUNTRIES BY FISCAL YEAR 1988.

THE PEACE CORPS AFRICAN FOOD TECHNICAL ASSESSMENT TEAM HAS JUST RETURNED FROM MALI WHERE THEY WENT TO DETERMINE THAT COUNTRY'S NEEDS AND TO DETERMINE THE EXTENT AND NATURE OF COLLABORATION WITH OTHER GROUPS. THEY RETURNED WITH A FAVORABLE RESPONSE ON THE PART OF THE MALI OFFICIALS, AND WITH THREE DISTINCT PROGRAMMING OPTIONS WITH POTENTIAL PLACEMENT OF 50 VOLUNTEERS IN 1986. THE ASSESSMENT TEAM'S RECOMMENDATIONS CONFIRMED OUR ORIGINAL HYPOTHESIS REGARDING

THE MULTI-FACETED TEAM APPROACH, AND OF THIS EFFORTS FEASIBILITY FOR GREATER IMPACT. A LIKE TEAM HAS JUST COMPLETED SIMILAR WORK IN ZAIRE AND IS ON ITS WAY BACK TO MAKE ITS REPORT. WHEN THE ASSESSMENT PROCESS IS COMPLETE UP TO 150 VOLUNTEERS WILL BE SENT INTO THE FIELD IN FISCAL YEAR 1986. ANOTHER 200 VOLUNTEERS WILL JOIN THEM THE NEXT YEAR. FOLLOWING AN EVALUATION OF THESE TWO PROGRAMS WE PLAN ON EXPANDING INTO FOUR ADDITIONAL COUNTRIES IN FISCAL YEAR 1988.

ONCE THE INITIAL GROUP OF HOST COUNTRY FARMERS HAVE BEEN SELECTED FOR THE PROGRAM, TEAMS OF 5-10 PEACE CORPS VOLUNTEERS WILL BEGIN WORKING WITH THEM TO TRANSFER BASIC TECHNOLOGIES AND SKILLS. THE FOCUS OF THIS VOLUNTEER "TEAM" CONCEPT WILL BE ON ALL PHASES OF THE FOOD SYSTEM; PREPARATION OF THE FARM LAND; CULTIVATING IMPROVED CROP VARIETIES; INSTITUTING SOUND FARMING PRACTICES; MAXIMIZING THE EFFICIENT USE OF SCARCE WATER AND ENERGY RESOURCES; IMPROVING SOIL FERTILITY AS WELL AS PRESERVING, PROCESSING, DISTRIBUTING AND MARKETING THE CROPS.

TECHNOLOGIES AND FOOD PROGRAMS WILL BE EMPHASIZED THAT HAVE ALREADY PROVEN EFFECTIVE IN THE REGION. I WOULD NOW LIKE TO SHARE WITH YOU SOME FACTS OR HIGHLIGHTS OF THIS LAST YEAR'S WORK OF PEACE CORPS VOLUNTEERS--WORLD-WIDE.

VOLUNTEER DISTRIBUTION

AT THE END OF FY 1985, OVER 6,000 PEACE CORPS VOLUNTEERS WILL BE SERVING IN 60 COUNTRIES THROUGHOUT THE DEVELOPING WORLD. AMONG THESE: 1,902 VOLUNTEERS SERVE IN AGRICULTURE/FOOD PRODUCTION AND RURAL DEVELOPMENT PROJECTS, 1200 OF WHICH SERVE IN AFRICA. MOST OF THESE VOLUNTEERS HELP SMALL SCALE FARMERS IMPROVE THEIR CROP MANAGEMENT TECHNIQUES. ALSO INCLUDED IN RURAL DEVELOPMENT ARE VOLUNTEERS WORKING IN SELF-HELP CONSTRUCTION PROGRAMS, TRANSFERRING SKILLS RANGING FROM THE MANUFACTURE OF BUILDING MATERIALS, TO THE COMPLETION OF SELF-HELP HOUSING, SCHOOLS AND RURAL COMMUNITY CO-OP STRUCTURES. THIS CONCEPT NOT ONLY MAKES CONSTRUCTION AFFORDABLE TO LOW INCOME FAMILIES BUT ALSO FOSTERS OTHER COMMUNITY DEVELOPMENT PROJECTS AS CONSUMER COOPERATIVES AND DAY CARE CENTERS.

441 VOLUNTEERS WORK IN THE AREA OF BUSINESS AND SMALL ENTERPRISE DEVELOPMENT AS ADVISORS TO COOPERATIVES, CREDIT UNIONS, AND RURAL BUSINESSES. THEY

TRANSFER SKILLS IN ACCOUNTING, MARKETING AND MANAGEMENT TO THEIR LOCAL COUNTERPARTS.

176 VOLUNTEERS SERVE AS PLANNERS, DESIGNERS AND SUPERVISORS OF THE CONSTRUCTION OF SMALL DAMS, SPILLWAYS AND IRRIGATION CANALS IN RURAL AREAS. VOLUNTEERS ALSO ASSIST IN DEVELOPING VILLAGE SANITATION SYSTEMS. THEY PROVIDE TECHNICAL ASSISTANCE TO MINISTRIES AND RURAL GROUPS IN THE OPERATION AND MAINTENANCE OF POTABLE WATER SYSTEMS. THEIR WORK HAS ENABLED POOR RURAL COMMUNITIES TO CONTROL THEIR WATER RESOURCES.

650 VOLUNTEERS WORK IN HEALTH EDUCATION AND THE ORGANIZATION OF COMMUNITY HEALTH FACILITIES. THESE EFFORTS INCREASE THE ABILITY OF COMMUNITIES AND INDIVIDUALS (PARTICULARLY WOMEN) TO MEET THEIR AND THEIR CHILDREN'S HEALTH AND NUTRITIONAL NEEDS IN A SELF RELIANT MANNER.

105 VOLUNTEERS WORK IN THE AREAS OF RENEWABLE ENERGY AND RELATED RESOURCES INCLUDING DEVELOPING AND BUILDING SAFE ENERGY-CONSERVING STOVES; CHARCOAL PRODUCTION SOLAR FOOD DRYING; BIOGAS PRODUCTION AND BLACKSMITHING.

1,926 VOLUNTEERS WORK IN THE EDUCATION AREAS OF PRIMARY EDUCATION, SECONDARY MATHEMATICS, SCIENCE AND TEACHING ENGLISH AS A FOREIGN LANGUAGE (TEFL). PEACE CORPS IS ALSO RESPONDING TO THE INCREASED DEMAND FOR VOCATIONAL AND TEACHER TRAINING VOLUNTEERS. TEACHER TRAINING IS PARTICULARLY IMPORTANT BECAUSE IT INCREASES THE IMPACT OF THE VOLUNTEERS TRANSMITTAL OF SKILLS. VOCATIONAL NON-FORMAL EDUCATION IS ALSO IMPORTANT BECAUSE HOST COUNTRY MINISTRIES ARE NOW RECOGNIZING THE IMPORTANCE AND NEED OF VOCATIONAL TRAINING THAT HAS NOT BEEN ACHIEVED THROUGH THEIR FORMER EMPHASIS ON REGULAR OR MORE TRADITIONAL EDUCATION. VOCATIONAL AND VOCATIONAL REHABILITATION TRAINING WITHIN THE DEVELOPING WORLD IS VITAL TO TRAIN THE MANPOWER NEEDED TO BUILD THE INFRASTRUCTURE NECESSARY TO THE DEVELOPMENT OF THESE NATIONS.

MOST OF THE OVER 5,600 PRESENT VOLUNTEERS HAVE SECONDARY PROJECTS WHICH ARE DIRECTED TOWARDS IMPROVING THE QUALITY OF LIFE FOR THE PEOPLE IN THE AREAS WHERE THEY SERVE.

UNV PROGRAM

IN ADDITION TO OPERATING INDIVIDUAL COUNTRY PROGRAMS, PEACE CORPS SPONSORS

AMERICAN VOLUNTEERS ASSIGNED TO THE UNV PROGRAM. IN FISCAL YEAR 1984 THERE WERE 37 VOLUNTEERS ASSIGNED TO THIS PROGRAM. TO MEET A GOAL OF INCREASED U.S. VOLUNTEER PARTICIPATION PEACE CORPS INTENDS TO RECRUIT ONE HUNDRED NEW VOLUNTEERS FOR THE VOLUNTEER ROSTER IN BOTH THIS YEAR AND 1986.

ALL U.S. CITIZENS APPLYING TO THE UNV PROGRAM ARE FIRST EVALUATED BY PEACE CORPS, WHICH PROVIDES INTERNATIONAL TRANSPORTATION AND READJUSTMENT ALLOWANCES FOR CANDIDATES SELECTED AT UNV HEADQUARTERS IN GENEVA, FOR VOLUNTEER ASSIGNMENTS.

IN ADDITION TO RECRUITING AND SPONSORING AMERICAN UNV'S, PEACE CORPS PROVIDES THE UNITED STATES GOVERNMENT'S ANNUAL CONTRIBUTION TO THE UNV SPECIAL VOLUNTARY FUND TO HELP PAY INTERNATIONAL TRAVEL AND POST-SERVICE SETTLEMENT COSTS FOR VOLUNTEERS FROM DEVELOPING COUNTRIES WHICH HAVE NO SPONSORING ORGANIZATION OF THEIR OWN.

NEW COUNTRY ENTRY/EXITS

THIS PAST YEAR PEACE CORPS HAD NO FORMAL NEW COUNTRY ENTRIES OR EXITS. WE WORKED ON STRENGTHENING OUR VOLUNTEER FORCE AND PROGRAMS IN THE CURRENT 60 COUNTRIES SERVED BY PEACE CORPS.

PEACE CORPS COLLABORATION AGREEMENTS

IN AN EFFORT TO MORE FULLY MEET THE NEEDS OF THE PEOPLES IN THE DEVELOPING WORLD AND COORDINATE OUR PROGRAMS WITH SIMILAR OR COMPLIMENTARY ACTIVITIES INITIATED BY OTHER U.S. DEPARTMENTS, AGENCIES AND PVO'S PEACE CORPS CONTINUES TO BUILD ITS COLLABORATIVE EFFORTS WITH OTHER ORGANIZATIONS WORKING IN THE THIRD WORLD.

IN 1984 PEACE CORPS SIGNED A COLLABORATIVE AGREEMENT WITH USAID TO WORK ON THE COMBATTING CHILDHOOD COMMUNICABLE DISEASE PROJECT (CCCD). THIS PROJECT IS A MAJOR COOPERATIVE EFFORT OF AFRICAN NATIONS AND OTHER DONOR NATIONS TO REDUCE CHILDHOOD MORTALITY AND MORBIDITY THROUGH PROGRAMS AIMED AT PREVENTION AND CONTROL OF CHILDHOOD DISEASES, SPECIFICALLY, VACCINE PREVENTABLE DISEASES, DIARRHEAL DISEASES AND MALARIA IN CHILDREN 0 TO 5 YEARS OF AGE.

PEACE CORPS HAS ALSO BEEN WORKING WITH AID IN A TECHNICAL COLLABORATION IN

NUTRITION PROGRAM CALLED HOME GARDENS. IN 1984 HOME GARDEN WORKSHOPS WERE CONDUCTED IN WESTERN SAMOA AND ECUADOR.

AS A RESULT OF FIELD TESTING IN HONDURAS AND THE EVALUATIONS AND RECOMMENDATIONS OF BOTH HONDURAN AND WESTERN SAMOAN PARTICIPANTS, THE TRAINING MANUAL ENTITLED NUTRITION IMPROVEMENT THROUGH MIXED GARDENING IN THE HUMID TROPICS WAS REVISED, EDITED AND PUBLISHED BY THE LEAGUE FOR INTERNATIONAL FOOD EDUCATION (LIFE) IN JULY OF 1984.

IN ADDITION TO THE COLLABORATION IN THE AREA OF HOME GARDENS, THE OFFICE OF NUTRITION AND THE PEACE CORPS RECENTLY CONDUCTED A SERIES OF HEALTH/NUTRITION IN-SERVICE TRAINING PROGRAMS FOR HEALTH/NUTRITION WORKERS AND THEIR COUNTERPART PEACE CORPS VOLUNTEERS IN DOMINICAN REPUBLIC AND MALI.

IN RESPONSE TO FIELD REQUESTS AID/PEACE CORPS HOME GARDEN WORKSHOPS ARE PLANNED FOR SIX COUNTRIES IN 1985 IN CENTRAL AFRICA REPUBLIC (CAR), THE GAMBIA, LESOTHO AND THAILAND. DEPENDING ON THE AVAILABILITY OF FUNDS WORKSHOPS MAY ALSO BE HELD IN CAMEROON AND SENEGAL.

IN FISCAL YEAR 1986 PEACE CORPS IS PLANNING TO WORK WITH THE DEPARTMENT OF AGRICULTURE ON THE NEWLY INITIATED AFRICA FOOD PROGRAM.

BETTER TRAINING

THE STRATEGY OF THE OFFICE OF TRAINING AND PROGRAM SUPPORT (OTAPS) IS TO SUPPORT THE REGIONS AND COUNTRIES BY PROVIDING A VARIETY OF TRAINING AND PROGRAMMING SERVICES BASED ON THEIR TECHNICAL EXPERTISE.

THIS LAST YEAR, AS ONE OF THE FOUR MAJOR UNITS WITHIN THE OFFICE OF INTERNATIONAL OPERATIONS, OTAPS FULFILLED FOUR MAJOR FUNCTIONS; TO PROVIDE PROGRAM DIRECTION TO THE PEACE CORPS; PROVIDE TECHNICAL ASSISTANCE TO REGIONAL AND FIELD STAFF; CONDUCT ON-GOING OPERATIONS; AND PERFORM STAFF FUNCTIONS FOR THE ASSOCIATE DIRECTOR OF INTERNATIONAL OPERATIONS.

OTAPS WILL CONTINUE TO PROVIDE THE FIELD WITH INFORMATION ON SECTOR-SPECIFIC PROGRAM MODELS THAT HAVE PROVEN EFFECTIVE, AND GENERIC MODELS FOR ADAPTATION TO SPECIFIC PROGRAM NEEDS BY VOLUNTEERS IN THE FIELD.

PEACE CORPS' WOMEN IN DEVELOPMENT (WID) PROGRAM IS WITHIN THE JURISDICTION OF THE OTAPS OFFICE. WE WILL CONTINUE TO INCORPORATE WID PURPOSES IN OUR VOLUNTEER PROGRAMS AND WITHIN THE AGENCY STRUCTURE.

THE OFFICE OF INFORMATION COLLECTION EXCHANGE (ICE) CONTINUES TO RESPOND TO AN INCREASING NUMBER OF TECHNICAL INFORMATION REQUESTS FROM THE DEVELOPING WORLD AND ORGANIZATIONS IN AND OUT OF THE UNITED STATES. ICE MATERIALS ARE RECOGNIZED AS A VALUABLE SOURCE OF VILLAGE TESTED TECHNICAL INFORMATION.

IN 1986 OTAPS WILL CONTINUE THE REVISION OF THE INTERAGENCY PROGRAMMING SYSTEMS MANUAL IN ORDER TO REFLECT RECENT CHANGES IN PROGRAMMING AND TRAINING POLICIES AND METHODS; AND IT WILL CONTINUE TO PUBLISH TECHNICAL MANUALS AND OTHER MATERIALS WHICH REPRESENT A SYNTHESIS OF FIELD (VOLUNTEER PROJECTS) GENERATED MATERIALS.

RELEVANT INFORMATION REFLECTING AGENCY-WIDE TRENDS IN PEACE CORPS PROGRAMMING AND TRAINING WILL ALSO CONTINUE TO BE PROVIDED TO THE OFFICE OF INTERNATIONAL OPERATIONS.

PRIVATE SECTOR SUPPORT INCREASING PEACE CORPS PARTNERSHIP BENEFITS

SINCE ITS INCEPTION IN 1964, THE PEACE CORPS PARTNERSHIP PROGRAM HAS PROVIDED THOUSANDS OF AMERICANS WITH THE OPPORTUNITY TO PARTICIPATE IN VITAL PROJECTS UNDERTAKEN BY VOLUNTEERS AND THEIR HOST COUNTRY COMMUNITIES. THE PARTNERSHIP PROGRAM IS NOW INCLUDED WITHIN THE OFFICE OF PRIVATE SECTOR DEVELOPMENT (OPSD) WHICH WAS CREATED IN DIRECT RESPONSE TO THIS ADMINISTRATION'S STRONG EMPHASIS ON PRIVATE SECTOR INITIATIVES.

OPSD MARKED FISCAL YEAR 1984 WITH A CAMPAIGN CELEBRATING THE PARTNERSHIP'S 20TH ANNIVERSARY. THIS CAMPAIGN RESULTED IN A RECORD $220,514.92 IN DONATIONS FROM THE PRIVATE SECTOR, OF WHICH, $65,279.71 WERE CONTRIBUTED BY 21 CORPORATIONS AND FOUNDATIONS. MORE FUNDS WERE RAISED DURING THIS CAMPAIGN THAN DURING THE PREVIOUS 3 YEARS COMBINED. AS A RESULT OF THIS CAMPAIGN 115 SMALL-SCALE PROJECTS, RANGING IN COST FROM $500 TO $5,000, WERE FUNDED.

CURRENTLY, OPSD IS FOCUSING ON THE FOLLOWING AREAS OF ACTIVITY:

- CONTINUED ACQUISITION OF IN-KIND CONTRIBUTIONS AND SERVICES TO SUPPORT PROJECTS UNDERTAKEN BY VOLUNTEERS;
- SECURING FINANCIAL ASSISTANCE FOR THE IMPLEMENTATION OF SPECIFIC PROJECTS THROUGH THE PEACE CORPS PARTNERSHIP PROGRAM, AND COORDINATING CROSS-CULTURAL EXCHANGES BETWEEN THE U.S. AND OVERSEAS PARTNERS; AND
- EDUCATING AMERICANS ABOUT THE DEVELOPING WORLD WITH EMPHASIS ON HELPING THEM LEARN MORE ABOUT THE COMMUNITIES WHERE OUR VOLUNTEERS LIVE AND WORK.

RECRUITMENT

PEACE CORPS CONTINUES TO IMPROVE RECRUITMENT THROUGH PUBLIC AWARENESS. THE PEACE CORPS AWARENESS CAMPAIGN FOCUSES ON BOTH THE GENERAL PUBLIC AND ON SPECIFIC GROUPS WITH SPECIAL SKILLS SOUGHT BY HOST COUNTRIES SUCH AS AGRICULTURE, HEALTH AND SMALL ENTERPRISE DEVELOPMENT.

AS A CONTINUING GOAL TO INCREASE MINORITY RECRUITMENT AND TO SUPPORT THE EXPANDED PEACE CORPS PRESENCE IN CENTRAL AMERICA AND IN AFRICA SPECIFIC RECRUITMENT CAMPAIGNS HAVE BEEN DIRECTED TOWARD THE SPANISH-SPEAKING AND BLACK COMMUNITIES. LAST FALL PEACE CORPS HOSTED A SYMPOSIUM FOR THE HISTORICALLY BLACK COLLEGES AND UNIVERSITIES SEEKING THEIR ASSISTANCE IN RECRUITING BLACK AMERICANS FOR PEACE CORPS SERVICE. I AM HAPPY TO REPORT THAT WE HAVE ALREADY RECRUITED BLACK AMERICAN CANDIDATES AS A RESULT OF THIS EFFORT.

LAST MONTH I HAD THE PLEASURE OF FORMALLY OPENING A PEACE CORPS RECRUITMENT OFFICE IN MIAMI WHERE AN EMPHASIS IS BEING MADE ON RECRUITING SPANISH-SPEAKING VOLUNTEERS FOR OUR INITIATIVE FOR CENTRAL AMERICA PROGRAMS.

ANOTHER RECRUITMENT UNDERWAY IS OUR CALL FOR OLDER AMERICANS TO BECOME VOLUNTEERS OVERSEAS. A MAJOR ACCOMPLISHMENT IN THIS AREA WAS OUR NATIONWIDE APPEAL FOR PEOPLE WITH AGRICULTURE OR AGRICULTURE RELATED SKILLS TO HELP FIGHT FAMINE IN AFRICA. THOUSANDS OF OLDER AMERICANS HAVE RESPONDED TO THIS CALL. IN ADDITION, MAILINGS TO OLDER AMERICANS AND CONTACTS WITH AMERICAN CORPORATIONS WHO HAVE WILLINGLY MADE AVAILABLE PEACE CORPS VOLUNTEER INFORMATION TO THEIR RETIRING EMPLOYEES, HAVE RESULTED IN MORE INQUIRIES FROM THIS VALUABLE SOURCE OF POTENTIAL AMERICAN VOLUNTEERS.

IN 1984 THE PEACE CORPS' RECRUITING OFFICE HANDLED OVER 160,000 INQUIRIES. IN 1986 THE PEACE CORPS WILL CONTINUE TO IMPROVE ITS RECRUITING TECHNIQUES.

PLACEMENT

THE PLACEMENT UNIT WAS RESPONSIBLE FOR PLACING 2781 NEW VOLUNTEERS IN FISCAL YEAR 1984. OUR NEW VOLUNTEER LEVEL IN 1985 WILL ONCE AGAIN INCREASE BY PLACING AN ESTIMATED 3,200 NEW VOLUNTEERS IN THE FIELD. ABOUT 3,000 TRAINEES IS PROJECTED FOR FISCAL YEAR 1986 BECAUSE OF THE AFRICA FOOD INITIATIVE AND INITIATIVE ON CENTRAL AMERICA.

AS TRADITIONAL WITH PEACE CORPS, CANDIDATES WILL BE SCREENED AND RECEIVE INTRODUCTION TO PEACE CORPS TRAINING CURRICULUM PRIOR TO OVERSEAS DEPARTURE.

ABOUT 575 CANDIDATES WILL GO THROUGH THE CENTER FOR ASSESSMENT AND TRAINING (CAST) IN FISCAL YEAR 1985. THIS EIGHT DAY PROGRAM PROVIDES SCREENING FOR THE MOST SENSITIVE AND DIFFICULT PEACE CORPS ASSIGNMENTS.

THE FIVE DAY CREST PROGRAM, A BRIEFER AND LESS EXPENSIVE TRAINING PROGRAM THAN THE CAST, WILL BE USED WHEN TRAINING RATHER THAN SELECTION IS THE MAJORITY PRIORITY. IN KEEPING WITH RECENT GAO RECOMMENDATIONS WE WILL BE CREST'ING MORE CANDIDATES THIS YEAR AS MORE AND MORE COUNTRIES FIND THIS METHOD A STRONG PREPARATION FOR NEW VOLUNTEERS.

OVER THE PAST YEARS THE CREST FORM OF STAGING HAS PROVEN HIGHLY POPULAR WITH HOST COUNTRY GOVERNMENTS, PEACE CORPS VOLUNTEERS, AND STAFF.

THE TRADITIONAL COMPREHENSIVE STAGING PROGRAM RUNS 3½ DAYS AND PROVIDES INITIAL TRAINING AND ORIENTATION, BUT IT DOES NOT PROVIDE EXTENSIVE SELECTION OR TRAINING.

IN FISCAL YEAR 1986 WE EXPECT THAT FEWER THAN 400 CANDIDATES WILL RECEIVE CAST TRAINING BECAUSE OF OUR EMPHASIS ON CREST AND AS THIS MORE COST EFFECTIVE PROGRAM BECOMES OUR AGENCY'S MAJOR MODEL.

IN FISCAL YEAR 1984 THE ACCEPTANCE RATE BY AMERICANS TO BECOME PEACE CORPS VOLUNTEERS WAS UP FROM 64% TO 68%--AN INCREASE OF 4 PERCENT. WE ATTRIBUTE THIS

ACCEPTANCE RATE INCREASE TO BETTER HANDLING OF VOLUNTEER CANDIDATES THROUGHOUT OUR ENTIRE DELIVERY SYSTEM.

IN 1985 WE WILL CONTINUE TO IMPROVE UPON OUR AUTOMATED SYSTEMS WHICH IS HELPING US TO DEVELOP THE MOST COST-EFFECTIVE METHODS FOR THE PLACEMENT OF VOLUNTEERS OVERSEAS.

OUR PLACEMENT GOALS FOR FISCAL YEAR 1986 WILL FOCUS ON PEACE CORPS INITIATIVE FOR CENTRAL AMERICA (IFCA) AND THE AFRICA FOOD INITIATIVE AS WELL AS TO IMPROVE THE EFFICIENCY OF THE PLACEMENT OPERATIONS WHILE NOT ONLY MAINTAINING BUT INCREASING THE QUALITY OF VOLUNTEERS OVERSEAS.

IMPROVED MANAGEMENT

THE OFFICE OF MANAGEMENT ASSISTS IN THE ACCOMPLISHMENT OF AGENCY OPERATING GOALS AND OBJECTIVES BY PROVIDING ADMINISTRATIVE MANAGEMENT SUPPORT TO DOMESTIC AND OVERSEAS OPERATIONS, AND DIRECT SUPPORT TO VOLUNTEERS AND PROSPECTIVE VOLUNTEERS IN THE OF MEDICAL SUPPORT SERVICES.

IN FISCAL YEAR 1984 OUR MANAGEMENT OFFICES:

- CONTINUED TO PROVIDE AN EFFECTIVE VOLUNTEER HEALTH CARE PROGRAM, PUBLISHED NEW AND EXPANDED TECHNICAL GUIDELINES FOR OUR OVERSEAS MEDICAL STAFF, AND CONDUCTED RESEARCH IN SUCH AREAS AS: RABIES VACCINE, FILARIASIS PREVENTION, AND ADMINISTRATION OF HEPATITIS "B" VACCINE;

- COMPLETED THE REVISION OF THE PEACE CORPS POLICY AND PROCEDURES MANUAL AND DISTRIBUTED IT TO OVERSEAS POSTS;

- FIELD TESTED THE COUNTRY MANAGEMENT PLAN HANDBOOK, WHICH PROVIDES THE FRAMEWORK FOR THE DEVELOPMENT OF COUNTRY OPERATING PLANS AND BUDGETS, AND A COUNTRY PROGRAM REVIEW/MONITORING SYSTEM WHICH WILL PROVIDE AN ONGOING SELF-ASSESSMENT TOOL FOR OVERSEAS POSTS;

- ACQUIRED AN AUTOMATED TRAVEL RESERVATION SYSTEM WHICH ENABLES US TO HAVE ON-LINE ACCESS TO AIRLINE SCHEDULES AND FARES, MAKE DIRECT "BOOKINGS," AND OBTAIN DETAILED ITINERARIES;

- COMPLETED PHASE II OF OUR "OVERSEAS COMPUTER INITIATIVE" WHICH WILL PLACE MICRO-COMPUTERS AND STANDARD APPLICATIONS PROGRAMS IN OUR POSTS OVERSEAS TO REDUCE PAPERWORK AND TEDIOUS MANUAL CALCULATIONS, AND TO STANDARDIZE PROGRAM AND FINANCIAL DATA;
- ACHIEVED A FOUR-YEAR REPLACEMENT CYCLE FOR OVERSEAS VEHICLES; AND
- ESTABLISHED A HEADQUARTERS UNIT TO IMPROVE LOGISTICAL SUPPORT TO OVERSEAS, AND TO MAXIMIZE COST SAVINGS THROUGH QUANTITY PURCHASES (E.G. MOTORCYCLE HELMETS).

IN 1986 THE MANAGEMENT OFFICE WILL CONTINUE ITS GOAL OF ACHIEVING EXCELLENCE IN ITS ADMINISTRATIVE MANAGEMENT SUPPORT FUNCTIONS.

PEACE CORPS 25 YEARS OLD

WE HAVE BEGUN PREPARATION FOR PEACE CORPS' 25TH ANNIVERSARY WHICH WILL BE CELEBRATED BEGINNING IN OCTOBER OF THIS YEAR THROUGH SEPTEMBER OF 1986. THE EVENTS BEING PLANNED WILL PROVIDE AN OPPORTUNITY FOR CREATIVE AND INNOVATIVE THINKING ABOUT HOW PEACE CORPS CAN BETTER RESPOND TO THE EMERGING LONG-TERM NEEDS OF THE DEVELOPING WORLD IN THE YEARS TO COME.

AS THE 25TH ANNIVERSARY APPROACHES WE ALSO LOOK BACK WITH PRIDE AT THE MANY SUCCESSFUL VOLUNTEER PROJECTS AND PROGRAMS NOW CONTINUING UNDER THE DIRECTION OF HOST COUNTRY NATIONALS. I WOULD LIKE TO GIVE YOU A FEW SUCH EXAMPLES WHICH ATTEST TO THE SUCCESSFUL TRANSFER OF SKILLS AND TECHNOLOGY BY PEACE CORPS VOLUNTEERS TO THEIR COUNTERPARTS AROUND THE DEVELOPING WORLD.

AGRICULTURE

FOOD AND FUEL CONSERVATION

IN AUGUST 1983, A FOOD PRESERVATION WORKSHOP WAS HELD IN BELIZE WITH 30 MEN AND WOMEN PARTICIPATING, INCLUDING PEACE CORPS VOLUNTEERS AS WELL AS INTERESTED LOCAL WOMEN. AT THIS TIME THE HAYBOX, AN INSULATED CONTAINER, WAS INTRODUCED. MADE WITH HAY AND SCRAP CARDBOARD, IT IS VERY INEXPENSIVE. IT IS USED FOR "FIRELESS COOKING." THE OBJECT IS TO BRING FOOD TO A BOIL, LET IT SIMMER BRIEFLY AND THEN TO PLACE THE POT IN THE HAYBOX WHERE IT WILL CONTINUE TO COOK WITHOUT FURTHER SUPERVISION OR FUEL.

THE HAYBOX NOT ONLY CONSERVES EXPENSIVE GAS IN THE LENGTHY PROCESS OF COOKING BEANS (A MAIN FOOD STAPLE) BUT ALSO ENABLES WOMEN TO DO OTHER WORK OUTSIDE THEIR HOMES WITHOUT CONCERN FOR THE SAFETY OF THEIR CHILDREN AS THERE IS NO OPEN COOKING FIRE LEFT UNATTENDED.

WITHIN SIX MONTHS AFTER THE WORKSHOP THE ASSOCIATE PEACE CORPS DIRECTOR, LINDA BORST, REPORTED THAT "EVERY FAMILY IN BELIZE NOW HAS A HAY BOX." DUE TO THE IMMENSE SUCCESS AND ACCEPTANCE OF THE HAYBOX, ITS USE IS EXPECTED TO SPREAD TO GUATEMALA.

FORESTRY PROJECT

FROM 1968-1974, OVER 50 PEACE CORPS VOLUNTEERS WORKED IN NORTHERN MOROCCO TO HELP REFOREST SEVERAL ERODED AREAS. THESE LANDS NOW HAVE FULL GROWN PINE, EUCALYPTUS, AND OLIVE TREES WITH MUCH ECONOMIC IMPORTANCE TO LOCAL COMMUNITIES.

THIS PROGRAM IS NOW CONTINUING WITH THE MINISTRY OF AGRICULTURE, SERVICE OF WATERS AND FORESTS. GENERALLY, PEACE CORPS VOLUNTEERS WERE REPLACED BY MOROCCAN UNIVERSITY GRADUATES. THE PEACE CORPS IS NO LONGER INVOLVED AND IS UNAWARE OF ANY OTHER OUTSIDE SUPPORT.

TECHNOLOGY TRANSFER

POTTERY MANUFACTURE

FROM 1968 - 1970 IN CABA, A SMALL TOWN IN NORTHERN LUZON, PHILIPPINES, PEACE CORPS VOLUNTEER KATHLEEN JUDGE BECAME INVOLVED WITH A GROUP OF POTTERS 3 KILOMETERS FROM HER VILLAGE. THESE VILLAGERS HAD EXPRESSED A NEED TO UPGRADE THEIR SKILLS, IMPROVE THEIR PRODUCT, FACILITIES, ETC...

THE VOLUNTEER HAD PREVIOUSLY HAD A GREAT DEAL OF TRAINING AND EXPERIENCE IN CERAMICS IN THE UNITED STATES. SHE TEAMED UP WITH A JAPANESE OVERSEAS COOPERATION VOLUNTEER (JOVC) WHO WAS AN ENGINEER SENT TO THE PHILIPPINES AS A CERAMIC ADVISOR. TOGETHER THEY SOUGHT AND RECEIVED FUNDING FROM THE PHILIPPINE GOVERNMENT (3000 PESOS) IN ORDER TO ASSIST THE VILLAGERS IN THE BUILDING OF KILNS, IMPROVING PRODUCTS, ETC.

THE VILLAGERS HAD SINCE BUILT 3 MORE SHELTERS, MANY MORE KILNS ARE NOW IN OPERATION, NEW METHODS HAVE BEEN DEVELOPED AND NEW PRODUCTS ARE BEING PRODUCED. ONE OF THE PRODUCTS INCLUDES CLAY WELL LINERS USED IN PURIFYING WATER.

THE FORMER VOLUNTEER IS DELIGHTED WITH ITS SUCCESS AND GRATIFIED THAT THE VILLAGERS INSTANTLY RECOGNIZED HER AFTER 13 YEARS.

SWEATER PRODUCTION

IN 1965, THE PEACE CORPS INITIATED HAND-KNIT SWEATER PRODUCTION AMONG 40 WOMEN IN MIRA, A VILLAGE IN NORTHERN ECUADOR. THE MIRENAS HAVE SINCE DEVELOPED A COTTAGE INDUSTRY WITH 1,000 FAMILIES PRODUCING 6,000 SWEATERS MONTHLY IN 1979. THE INDUSTRY HAS SPREAD OVER TWO PROVINCES AS MIRENAS EXTENDED EMPLOYMENT AND CREDIT TO EVEN MORE ISOLATED RURAL WOMEN.

WOMEN IN MIRA ARE ECONOMIC ACTORS IN THEIR OWN RIGHT WHO MAKE IMPORTANT CONTRIBUTIONS TO LOCAL AND NATIONAL DEVELOPMENT. ENTIRELY DOMINATED BY RURAL WOMEN, MIRA'S SWEATER INDUSTRY IS AN EXAMPLE OF AUTONOMOUS COMMUNITY DEVELOPMENT BASED ON THE ELABORATION OF EXTENDED FAMILY EXCHANGE NETWORKS.

BUSINESS

IN THE KINGDOM OF TONGA, PEACE CORPS VOLUNTEER BERNIE LOVITKY, A RETIRED OLDER AMERICAN, BECAME INVOLVED IN A PROJECT TO RESURRECT A FALTERING CONSUMER COOPERATIVE WHICH SOLD WHOLESALE GROCERIES TO CO-OPS THROUGHOUT TONGA. BECAUSE OF BERNIE'S EXTENSIVE EXPERIENCE AND BACKGROUND IN BUSINESS IN THE UNITED STATES, HE WAS APPROACHED TO ACT AS A CONSULTANT TO THE CO-OP.

BERNIE BECAME INVOLVED IN ALL ASPECTS OF THE BUSINESS. HE HANDLED PERSONNEL, PURCHASING AND SELLING. THE CO-OP HAD BEEN IN BUSINESS FOR 10 YEARS AND WAS ON THE VERGE OF BANKRUPTCY. BERNIE'S CONCERN WAS TO AVOID THE MISTAKES OF THE PAST AND THUS WAS SENSITIVE TO THE NECESSITY TO START SLOWLY AND TO OPERATE WITHIN THE PARAMETERS OF THE TONGAN CULTURE AND ITS NEEDS.

INITIALLY, BERNIE AND HIS TONGAN ASSISTANTS SET OUT TO INSURE THE RELIABILITY OF DELIVERY TO THE STORES, MAKING IT AN ORGANIZED AND DEPENDABLE SYSTEM. THROUGH CAUTIOUS BUYING--GEARED FOR TONGAN CONSUMER PREFERENCE, SECURING SHIPPING AND

RETAILERS' REBATES, ADVERTISING IN NEWSPAPERS AND RADIO--THE CO-OP QUICKLY BEGAN TO EXPERIENCE SUCCESS.

IN THE TIME THAT BERNIE WORKED WITH THE CO-OP, 1982-1984, THE PROFIT STRUCTURE WENT FROM 4% TO 9%. THE CO-OP'S GROSS VOLUME WENT FROM $20,000 (U.S.) IN 1982 TO $223,000 (U.S.). THE GROSS VOLUME FOR 1985 IS EXPECTED TO REACH $3,000,000 (U.S.). WHEN BERNIE LEFT HE WAS REPLACED BY A TONGAN AND THE CONSUMER CO-OP IS NOW COMPLETELY MANAGED BY THE TONGAN PEOPLE.

WHILE BERNIE'S ENTHUSIASM AND EXPERIENCE IN BUSINESS PROVIDED NEW DIRECTION FOR THE CO-OP, HE EMPHASIZED THAT THE PROJECT'S SUCCESS WAS DUE TO THE INCREDIBLE MOTIVATION AND HARD WORK OF THE TONGANS.

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THE SUCCESSFUL PROGRAMS OF THE PAST BUILD A FIRM FOUNDATION FOR THE FUTURE. THERE CONTINUES TO BE A NEED FOR PEACE CORPS PRESENCE BECAUSE THE BASIC PROBLEMS WE ADDRESS PERSIST IN DEVELOPING COUNTRIES: HUNGER AND MALNUTRITION, INFANT MORTALITY, POVERTY, ILLITERACY AND LIMITED EDUCATIONAL OPPORTUNITIES, INADEQUATE HEALTH CARE AND DECLINING NATURAL RESOURCES. WE KNOW SOLVING THESE CHALLENGES IS A LONG-TERM PROCESS.

DEVELOPING COUNTRIES MUST RELY ON THEIR OWN HUMAN RESOURCES TO ENSURE LONG-TERM SOLUTIONS TO THESE PROBLEMS AND CHALLENGES. PEACE CORPS HAS AND WILL CONTINUE TO PLAY A VITAL ROLE IN THIS PROCESS BY PROVIDING THE TRANSFER OF TECHNOLOGY AND SKILLS TO HELP MAKE PEOPLE IN THE DEVELOPING WORLD SELF-SUFFICIENT.

PEACE CORPS VOLUNTEERS WORK IN CLASSROOMS AROUND THE WORLD; FISHERIES VOLUNTEERS TEACH VILLAGERS RELATIONSHIPS BETWEEN ENVIRONMENT AND DISEASE, AND SMALL BUSINESS AND COOPERATIVE VOLUNTEERS ASSIST LOCAL PEOPLE TO IMPROVE PRODUCTION AND ESTABLISH PROFIT MAKING VENTURES.

THE EFFECTIVENESS OF PEACE CORPS HAS BEEN ENDORSED BY LEADERS OF HOST COUNTRY GOVERNMENTS IN THIS COUNTRY AND IN THEIRS. PEACE CORPS IN THE NEXT 25 YEARS WILL CONTINUE TO FORM TIES OF FRIENDSHIP BETWEEN THIS COUNTRY AND THE DEVELOPING WORLD. IT WILL HELP THOSE LESS FORTUNATE THAN OURSELVES BUILD UP TODAY WHAT WILL LAST FOR A VERY, VERY LONG TIME TO COME. AND, MUCH MORE, PEACE CORPS WILL CONTINUE TO BRING TO OUR FELLOW AMERICANS AN UNDERSTANDING OF THE PEOPLES OF

OTHER NATIONS, AND LIKEWISE BRING TO THOSE INDIVIDUALS, AN UNDERSTANDING OF OUR NATIONS' CITIZENS.

BUDGET REQUEST

THIS PRESENTATION SUPPORTS THE ADMINISTRATION'S REQUEST TO THE CONGRESS TO APPROPRIATE THE AMOUNT OF $124.4 MILLION DOLLARS FOR PEACE CORPS FOR FISCAL YEAR 1986.

WITH THIS FUNDING WE BELIEVE WE WILL BE ABLE TO MAINTAIN STABILITY IN OUR ON-GOING PROJECTS AND INITIATE THE AFRICAN FOOD PROGRAM BY MORE EFFECTIVE USE OF OUR RESOURCES, REDUCING TRAVEL COSTS AND OTHER ADMINISTRATIVE OVERHEAD.

WE WILL RECRUIT 3,000 NEW VOLUNTEERS AND SUPPORT 4,862 VOLUNTEER YEARS OF SERVICE IN AFRICA, THE CARIBBEAN BASIN, CENTRAL AND SOUTH AMERICA, THE MIDDLE EAST AND PACIFIC.

PEACE CORPS PLANS TO OPERATE IN 63 COUNTRIES, WITH THREE NEW COUNTRY ENTRIES, PANAMA AND EQUATORIAL GUINEA, GUINEA CONAKRY. PROGRAM LEVELS WILL REMAIN RELATIVELY UNCHANGED FROM 1985.

SEVERAL THEMES HAVE FORMED THE FOUNDATION FOR SUCCESSFUL PEACE CORPS PROGRAMS IN THE PAST AND WILL CONTINUE TO BE EMPHASIZED IN 1986. THE FIRST IS THE SPIRIT OF PARTNERSHIP WITH THE DEVELOPING WORLD. WE WILL ENSURE THAT PROJECTS NOT ONLY RESPOND TO THE CHANGING PRIORITIES AND BASIC NEEDS OF THE PEOPLE PEACE CORPS SEEKS TO SERVE, BUT ALSO THAT PROJECTS ARE JOINTLY DEVELOPED, IMPLEMENTED AND SUPPORTED BY OUR HOST COUNTRIES.

SECOND, IS OUR FOCUS ON HELPING OTHERS BETTER MEET THEIR OWN BASIC NEEDS. THIS CENTRAL TENET OF PRESIDENT REAGAN'S DEVELOPMENT ASSISTANCE PHILOSOPHY HAS LONG BEEN SUPPORTED BY PEACE CORPS. THIS MEANS ENSURING THAT VOLUNTEER PROJECTS ARE DESIGNED NOT ONLY TO PROVIDE TRAINED MANPOWER, BUT ALSO TO HELP DEVELOP WITHIN HOST COUNTRY CITIZENS THE SKILLS NEEDED FOR GREATER SELF-SUFFICIENCY, PARTICULARLY IN FOOD PRODUCTION, AND ECONOMIC SELF-SUFFICIENCY.

THIRD, PEACE CORPS WILL CONTINUE TO PLACE VOLUNTEERS WHERE THEY CAN HAVE THE GREATEST EFFECT. THIS WILL MEAN A CONTINUOUS REVIEW OF CURRENT PROGRAMS, SPECIAL ATTENTION TO SOME COUNTRIES WHERE PEACE CORPS VOLUNTEERS ARE NOT

CURRENTLY SERVING, AND PRIORITY GIVEN TO ASSIGNMENTS WHERE VOLUNTEERS SERVE AS CATALYSTS AND WHERE THEIR EFFORTS WILL HAVE A LASTING MULTIPLIER EFFECT.

IN 1986 PEACE CORPS REGIONAL PROGRAMS WILL MOVE AHEAD IN THE CONTEXT OF THESE THEMES. THE AFRICA REGION WILL RECRUIT 1,280 NEW VOLUNTEERS. WE ARE MOVING AHEAD, AS I SAID EARLIER TO ADDRESS THE GROWING FOOD PROBLEM IN AFRICA WITH OUR FOOD INITIATIVE.

IN THE INTER-AMERICA REGION, WHERE THE VAST MAJORITY OF THE POPULATION IS LIVING AT THE POVERTY LEVEL, PEACE CORPS PLANS TO FIELD 975 NEW VOLUNTEERS. OUR INTENT IS TO CARRYING OUT THE DESIRE OF CONGRESS AND THE ADMINISTRATION IN CENTRAL AMERICA. REGIONAL PROGRAMS IN THE INTER-AMERICAN REGION WILL CENTER ON EDUCATION, SMALL BUSINESS DEVELOPMENT, ENVIRONMENTAL EDUCATION/MANAGEMENT, HEALTH, NUTRITION AND SANITATION, SELF-HELP HOUSING, AND NEEDED BASIC TECHNOLOGY, AGRICULTURE AND FISHERIES. THE NEEDS OF CENTRAL AMERICA WILL RECEIVE PRIORITY.

THE REGION OF NORTH AFRICA, NEAR EAST, ASIA AND PACIFIC (NANEAP) WILL RECEIVE 680 NEW VOLUNTEERS IN 1986. PROGRAMS IN THIS AREA ARE CLOSELY TIED TO HOST COUNTRY PRIORITIES EXPRESSED IN THEIR LONG-TERM DEVELOPMENT PLANS. PROJECTS INVOLVE EXPANDING AGRICULTURAL PRODUCTION, INCREASING RURAL HEALTH SERVICES AND POTABLE WATER, EXPANDING SMALL BUSINESS AND PRIVATE SECTOR OPPORTUNITIES AND IMPROVING EDUCATIONAL OPPORTUNITIES.

IN THE MID-EIGHTIES AMERICA AND THE NATIONS OF THE FREE WORLD FACE THE CHALLENGE OF FIGHTING THE FAMINE IN AFRICA, ILLITERACY AND HUMAN SUFFERING THROUGHOUT OUR GLOBE. THROUGH THE COMMITMENT OF ALL COUNTRIES AND WITH THE DEDICATION OF DEVELOPMENT INSTITUTIONS LIKE AID, OTHER BILATERAL DONORS, PEACE CORPS AND PRIVATE VOLUNTARY ORGANIZATIONS, THE GOAL OF SELF-SUFFICIENCY FOR PEOPLES OF THE DEVELOPING WORLD CAN BE REALIZED.

THERE ARE, AS I SAID EARLIER, NO QUICK FIXES OR EASY SOLUTIONS. DEVELOPMENT IS DONE THROUGH LONG-TERM COMMITMENTS. AS PEACE CORPS MOVES FORWARD TO MEET THIS CHALLENGE WE KNOW IT IS AN AMBITIOUS MISSION AND WE MUST DRAW HEAVILY ON THE LESSONS--AND SHORTCOMINGS--OF THE PAST.

IF THERE IS TO BE PEACE ON EARTH, AND THAT DOES NOT JUST MEAN THE ABSENCE OF

WAR, BUT THE ABSENCE OF THOSE CONDITIONS THAT CAUSE WAR, SUCH AS HUNGER, DISEASE AND DESPAIR, THEN THERE IS A GREATER NEED THAN EVER BEFORE FOR AMERICANS TO JOIN HANDS WITH THEIR NEIGHBORS ACROSS THE SEAS AND BORDERS TO ADDRESS AND CURE THESE RAVAGES OF HUMAN SUFFERING.

THE MISSION HAS BEEN IDENTIFIED AND THE AMERICAN PEOPLE HAVE COME FORTH WITH AN OUTPOURING OF WILLINGNESS TO SERVE. AS PRESIDENT REAGAN SAID IN HIS BUDGET ADDRESS, "THE RESPONSE TO THE PEACE CORPS' CALL FOR VOLUNTEERS IS A TRUE EXAMPLE OF THE VALUES OF THE AMERICAN PEOPLE."

WE AT PEACE CORPS ARE FULLY AWARE OF THE TRUE VALUES OF THE AMERICAN PEOPLE--FOR OVER 110,000 RETURNED PEACE CORPS VOLUNTEERS ATTEST TO THAT STATEMENT.

OUR NATION HAS FOUGHT WARS WHEN TERRITORIES AND HUMAN RIGHTS WERE THREATENED--WE MUST NOW FIGHT WITH DIFFERENT TOOLS, THE TOOLS OF SHARED BASIC TECHNOLOGY AND THE TRANSFER OF SKILLS IN ORDER TO WIN THE WAR OVER HUMAN SUFFERING AND TO CREATE A WORLD ATMOSPHERE OF PEACE AND FRIENDSHIP. THANK YOU.

PEACE CORPS GOALS

Senator KASTEN. Than you for joining us.

Ms. RUPPE. Thank you very much, Mr. Chairman, members of the committee. It is a pleasure for me to appear before you. Again, I would like to thank you for your past support which has enabled the Peace Corps to better meet its goals. My statement will summarize some of the highlights of what we consider the Peace Corps to be today and our goals for the future.

AFRICAN TRIP

First, however, I would like to tell you briefly about my recent trip to Africa. I had the honor of accompanying Vice President Bush on his inspection tour of Sudan, Niger, and Mali. We not only saw emergency relief operations in all three countries, but I also got to point out long-term Peace Corps projects, as well as projects directed at helping the people at the grass roots level to help themselves and become self-sufficient.

In Eastern Sudan we visited a refugee camp where thousands of Ethiopian famine victims are receiving U.S. emergency aid. In that same region a long-distance transportation system delivers surplus American sorghum and wheat to approximately 1.4 million people in the drought stricken area. But it has to be pointed out, added to the refugee problem it is estimated that at least one-fourth of the indigenous Sudanese population risk starvation as well.

Everywhere we went the people expressed gratitude for the help Americans are providing.

In Niger, a visit to an off-season irrigated agriculture project—a food production, self-sufficiency training center had to be canceled because of the blinding dust storms, which further points out the problems of the drought. However, I did visit with many of the 120 volunteers working throughout the country on well construction, agriculture, improved wood stoves, health, et cetera.

The trip to Mali was important as this country is scheduled to be the first African country to participate in our Africa food systems initiative. While in Mali, the Vice President visited Peace Corps volunteers who showed him what they are doing in long-term village-based programs to address the health, nutrition, and agriculture needs. Mrs. Bush and I visited a school for the blind where a volunteer from Seattle, Lance Matteson, is supervising the installation of an accounting system for the production and marketing of the students' handicrafts.

When the Vice President left for Geneva, I remained in Mali. During the next 4 days, I made an extensive tour of Peace Corps sites in Segou, Bandiagra, Bamako, Quelessebougou, and Banamba. I wanted to see first hand the work of our volunteers and the areas that our food systems volunteers will be assigned to—to complement that work. I met with the Minister of Agriculture to discuss the initiative. He said, "The people of Mali are strong people and even with the problems of the drought, they will survive, especially with the help of the U.S. Peace Corps." But the lack of rainfall—the drought continues to exact its terrible toll.

America and the free nations of this world have an unparalleled challenge ahead of us. We must make the commitment to provide the development assistance at the grass roots level so desperately needed to enable these people to feed themselves.

AFRICAN FAMINE RELIEF

We have seen that the people of America are ready to make such a commitment. As noted in this committee's introduction on the African Famine Committee report, and in the President's budget message—Americans have responded in overwhelming numbers to Peace Corps' call for agriculture volunteers to go to Africa to help fight famine.

Wisconsin has certainly been in the forefront to respond with farmers of all ages who are really willing to put their skills and talents to work. Over 17,000 Americans of all ages—eight of them over 80 years of age, one 99—have answered the call to help in Africa and other countries where we face agricultural needs. I am proud to say that 600 of these applicants will be going to Africa this spring and summer.

Senator KASTEN. Does that include the 99-year-old?

Ms. RUPPE. It may, if he or she is in good health. [Laughter.]

One thing that was very important, we do feel we now have a talent bank of agricultural skills, something the Peace Corps has never been able to attract in sufficient numbers, and considering that our African Food Systems Initiative is a 10-year program, having those names on file to help us provide technical support is very important.

AFRICA FOOD SYSTEMS INITIATIVE

This year, in conjunction with our ongoing efforts on the Initiative for Central America, which was funded by Congress last year, and our other worldwide grassroots development efforts, we also announced a new program called the Africa Food Systems Initiative. This program is planned as a long-term campaign and will help as many as 12 African countries reverse their 20-year decline in food production. Like others of our Peace Corps agricultural programs, this is aimed at helping the small farmers to develop and implement self-sustaining food production through farming techniques and practices adapted to their local conditions, skill and resources.

When I announced at our press conference that the Peace Corps was at the right place at the right time, I really meant it, because there is a 24-year record, a track record in Africa and other nations around the world, of volunteers truly being effective at bringing the appropriate technologies in agriculture, in health, in reforestation to the people who need it most and who must be responsible for the promotion of food production in Africa.

Initially this program will begin in Mali, as I said before, and Zaire, and then expand to as many as 6 to 12 countries by fiscal year 1988.

We will be working closely with AID, with all PVO's we can interest in working with us. We have already alerted many of them to this program. We will be working with the African Development Foundation, we hope, and we will also work with the Department of Agriculture and our host country ministries.

The key to the success of this program, we feel, is the coordination, evaluation, long-term planning, and volunteers following volunteers. It is projected to be at least a 10-year program in targeted areas.

At the end of fiscal year 1985, Peace Corps will have over 6,000 volunteers on board serving in 60 countries throughout the developing world. We also hope during this year to reenter Panama. We have teams ready to set up programs in Equatorial Guinea and Guinea Conakry in West Africa.

Peace Corps continues to increase its cooperative efforts with other U.S. Government agencies and private volunteer organizations.

I am pleased to say that working with Peter McPherson, we have effected a coordination which is beneficial to both our agencies. In earlier testimony in the House, Mr. McPherson said that the key to development in the developing world was human resources and the moving of small projects. The fact is that we in the Peace Corps have a unique human resource, and the experience over 24 years of it working on small-scale projects.

I am pleased to say there has been tremendous success in getting AID's resources in small amounts out to the village level, coordinating with our volunteers on projects around the world. When I went into Mali, I discovered that the $40,000 there that had been made available by AID has funded 21 village-based programs. That is the type of resource development that is needed throughout the developing world.

Peace Corps volunteers are motivated Americans with skills who are willing to learn the language necessary for transferring those skills and who will live in remote areas of the countries where they need to be brought.

This coordination continues to grow. This past year, we have ongoing service agreements in forestry. We just signed a new one in combating childhood communicable diseases. We are working on oral rehydration therapy, and our small projects assistance funds I just mentioned as working so well in Mali is also working in other countries around the world.

Technical assistance to volunteers have given them a more effective ability to meet the needs of the people they work with. Our coordination with AID has given us much greater capability for doing in-service training of counterparts. It has been very important to both our agencies. Our Office of Training and Program Support continues to support our programming. Our information collection exchange has grown tremendously and is known now as a worldwide resource of appropriate technology at the village level. Our Women in Development Program continues strongly. It is a strong component of our African Food Systems Initiative.

AGRICULTURAL SKILLS OF AFRICAN WOMEN

The women of Africa must have their agricultural skills upgraded. They account for 80 percent of the agricultural production. Any food production must involve them in a serious manner in upgrading their skills.

We also would like to take a leading role in the Women's Conference in Nairobi. We are one of America's few outreaches in the world in Women In Development in developing countries.

PRIVATE SECTOR

I am very pleased to report that our private sector donations have quadrupled since I took over in 1981. Over $220,000 was received from the private sector last year, and that was matched by over $200,000 in in-kind contributions. As we go into our 25th anniversary, we hope to make that outreach even greater.

RECRUITING

Our Peace Corps recruiting office handled over 160,000 volunteer inquiries in 1984. We feel confident that we are going to be able to select and send over 3,200 of the finest Americans that we can get to meet the requests from countries around the world. I am pleased to say we have increased our minority recruitment efforts, both with blacks and Hispanics. We opened new recruiting headquarters in the Miami area and in San Diego; and our program to encourage older Americans has been quite successful also. We have a study under review right now which will address the special needs of training and providing better support for our older Americans.

Our management office has had a successful year.

HEALTH PROGRAMS

In health, we are very pleased we have signed an agreement with the Center for Disease Control which we feel is allowing us to meet much more quickly the health needs in the field. Health and safety of our volunteers, of course, remains our paramount consideration. The phasing in of our overseas computer system has been completed, and we have established a headquarters unit, to create cost savings through quantitative purchases. For example, this year we bought the motorcycle helmets saving quite a bit and putting out one of the top-of-the-line motorcycle helmets to ensure the safety of our volunteers. Many more audits have been done, and we are learning from the audits how to effect management and training improvements.

My statement supports the administration's request to the Congress for $124.4 million for fiscal year 1986. We intend to have a smooth transition into fiscal year 1986. We plan to recruit over 3,200 people this year and 3,000 next year, so there will be a steady flow over the next 2 years. The objective of reaching this year's request will also be reached by reducing our administrative overhead and travel costs.

In 1985 and 1986, the Peace Corps will be celebrating its 25th anniversary. We are determined to present a program during this event that will be a launching pad for the next 25 years. We are making a serious effort to involve returned volunteers from across the country, leaders from the countries we serve and other development organizations and PVO's. We want to create a resounding recommitment across this Nation for national volunteerism, to create a vision for the future of Americans, young and old, willing to contribute to the development of world peace and friendship. This is our goal for the 25th anniversary.

Thank you very much. I will be happy to answer any and all questions.

Senator KASTEN. Thank you.

PROGRAM REDUCTIONS

In your testimony you talk about a number of significant initiatives: increased activity in Central America, particularly as part of the Jackson plan; increased activity in Africa, particularly with respect to the famine; and I will mention, although not in your statement, increased activity or introduction of the Peace Corps into the People's Republic of China.

You are also talking about a funding request that is $4.2 million below the current fiscal year. I am not sure that it is credible to argue that you can carry out the three new significant initiatives and to keep up the regular programs. Is it not going to be very difficult, if not impossible, to carry out these significant initiatives and, at the same time, maintain the regular programs and, at the same time, take a significant reduction in funding? I didn't hear you saying which programs you were going to be getting rid of as you add on these new initiatives. Is this budget realistic, or do you intend to reduce some of the other programs within the Peace Corps?

Ms. RUPPE. Well, we are saying that we are reducing in that we will replace 3,200 trainees in this fiscal year, and we are saying we will replace 3,000 by the end of fiscal year 1986. That is a decrease of approximately 200 trainees. That does give us some savings.

We also feel that through careful planning, plus the fact that we do have the highest budget that we have had, we can do precisely what we have said. We have costed this out, and we feel that with the African Food Systems Initiative, that is in our budget, to place those volunteers out there, and it is really a type of aggressive program that we feel will have more impact. I do have to say it will cost more because it is teams of volunteers, for the evaluation that is needed and the assessment teams. We don't even know yet if we need more vehicles; certainly we are going to need more staff. We are projecting about half a million dollars in savings from the 1986 pay reduction.

Second, we are incurring many expenses in 1985 which will not recur in 1986, including, for example, the IFCA startup costs and the cost of transition to our new computer system.

Finally, wherever possible we are making discretionary purchases, such as vehicles and equipment in 1985 rather than in 1986. That includes medical kits, office leases overseas. So we do feel through careful planning that we can do what we have said. We won't be making quality improvements, those will just have to be set aside, but we do feel we can do this with this budget.

PROGRAMS IN CHINA

Senator KASTEN. Let me go back. You still have not talked much about the People's Republic of China, and you are talking about the possibility of starting up a program there. How far along are you in your plans to enter China? How much will that program cost? Will the People's Republic of China reimburse you for part or all of the expenses? Is there some kind of a partnership agreement with them you might not have with a lesser developed country? How many volunteers are going into China, and roughly at what rate? Again, in order to make those inroads, are you going to end up by taking dollars away from other countries in order to start a program in China?

Ms. RUPPE. Let's go back historically a little bit to the relationship of the Peace Corps with China, and that has mainly been that this is a long-standing desire, I would say, of the Peace Corps which feels its program is so positive and has developed such a tremendous relationship between peoples of the United States and the other countries we are in. We feel, considering China is the most populated country in the world, if we are truly dedicated to world peace and friendship, it would be very important that at some point in Peace Corp history, this relationship be established.

However, over the years when our country did not have good relations with China, there was never an interest on the part of that nation to have volunteers. I think as we see our relationship improving, we see outreaches to all sorts of different parts of America having a stronger relationship there. So we see a great interest. We have U.N.V. volunteers teaching English there. The Chinese would very much like English teachers. Over the past years there have been outreaches. Right now there seems to be an outreach but no substantive plans have come through. I can't begin to answer your questions because we haven't gotten that far down the road. It is also considered a rather confidential subject. So I would be happy to supply more information for you on what precisely where we are at, but there really isn't a tremendous amount of information because we have not really put in funding levels. You might have an exploratory team or something like that in fiscal year 1986, but we don't project very much beyond that, and there really is a lot more talking and negotiating and building up the relationship with the people we might work with in the future.

Senator KASTEN. So it is mostly plans right now; a little short on the specifics as of this moment at least?

Ms. RUPPE. Right, because needless to say, as you pointed out with the budget where we are, having to carefully watch all the programs to keep up that strength, it would not be easy to do, and it certainly would not be done at the expense of other programs.

ASSISTANCE TO SUDAN

Senator KASTEN. In your testimony on page 1 you said the "people of Sudan were so extremely grateful for the assistance Americans have and are providing." You also said the people of that region, to use your words "will never forget what the Americans have done" for them. I am happy to see that. We also have an article published by the Washington Post on February 17 which says, this is the headline, "Despite Aid to Sudan, Anti-U.S. Feelings Rise."

It characterizes the feeling in the Sudan as "anti-American paranoia." This is an issue that isn't necessarily unique to Sudan; but this happens, you say, at a time when the Sudanese will never forget what the Americans have done for them and how wonderful we are. At the same time we are criticized, at least by some, either in the streets or in the government, wherever, in Sudan who the Washington Post spoke to. I don't think U.S. action demands gratitude for U.S. generosity. That is not the purpose of humanitarian assistance. I do like to think our assistance does foster good relations, and your statement is right and the Washington Post with its anti-American paranoia is less right.

What specific evidence do you have of the people forgetting what the Americans have done; and let me ask you the other side of the question, did you see or are you aware of any of what was referred to by a professor in Sudan as "anti-American paranoia?" The United States is accused of establishing military bases and even torturing prisoners in Sudan. That is crazy.

What made you say what you did, and did you see any of this anti-American feeling in the Sudan?

Ms. Ruppe. No; from the moment we set down on the runway in Khartoum, every member of the government was lined up to welcome the Vice President, there was a tremendous reception ceremony. Above all it was going out to the villages and going to the camps that you saw this outpouring of incredible hospitality, signs held up, welcoming the Vice President and Mrs. Bush. One of the more humorous ones was, Vice President and Mrs. Bush you are mostly welcome; a misuse of an adverb. [Laughter.]

There were people who had come in 2- and 3-day trips on camelback to greet the Vice President and Mrs. Bush. I think it made a tremendous impact on both the Vice President and Mrs. Bush, the traveling party and certainly the press that came with us to see in the midst of such adversity that people were still smiling, welcoming, waving, and this was true in every stop in Sudan, including the capital city. Many times in a capital city, you would expect less enthusiasm, but even there, people would line up whenever a motorcade went through and smile and wave, and it was very impressive.

I think if you talked to any of the press people who went on that trip now, they would not write something like that. We have five volunteers in the Sudan under an innovative program working with a private volunteer organization. Five volunteers in renewable energy, working with the Georgia Institute for Technical Research on promoting improved charcoal wood stoves which are very important to preserve the forests of Sudan. They told me they have had an excellent welcome. They have not seen any anti-Americanism. I presume not every individual person in the country is going to be for any particular country and policies, but certainly we were impressed, the entire delegation that went, especially when you went out to the camps and saw people who truly were in pitiful condition from their trip across the desert. It is very interesting, one woman in the infirmary was asked, she had her son with her, 7 years old, 20 pounds, why she left. Through an interpreter she was asked this. Finally she responded, "I left because the government is terrible and trying to kill us, soldiers come and we have no food." Yet even in the midst of that she said thank you to the Vice President for the food her child was receiving. I agree with you, we don't expect it. This is humanitarian yet it was very nice to see people in such a beautiful fashion.

ETHIOPIAN JEWS

Senator Kasten. During the trip or at any time before or after, have you or members of the Peace Corps been involved in the work with the Ethiopian Jews trying in any way to get them out of Ethiopia through the Sudan, to help them in the camps, and once they are there to help Israel in its efforts to save them?

Ms. Ruppe. Our program, unfortunately, was asked to leave Ethiopia in 1977, so we really have no volunteers there who could be involved.

Senator Kasten. If someone came through the Sudan?

Ms. RUPPE. Our five volunteers, I hope and presume, are keeping their noses close to their charcoal wood stoves. [Laughter.]

They have been busy with that. They didn't mention anything about such an involvement. They are certainly trying to promote conservation of fuels, better ways of making those stoves and disseminating them out at the village level. No; I did not see any connection there.

Senator KASTEN. The Wall Street Journal on February 15 published an editorial that talks about some of the choices that you have made, and they quarrel with some of the choices. I frankly share at least part of their concern.

First of all they accuse the Peace Corps of taking $2 million earmarked in the 1984 Supplemental for Latin America and transferring it to Africa. Is this, in fact, true?

Ms. RUPPE. No; it is not true.

GRENADA

Senator KASTEN. We discussed a year ago at the hearing that you would be sending volunteers to Grenada. You said to me that you intended to send 30 volunteers to Grenada in fiscal year 1985. The editorial claims that only 12 were sent to Grenada after its liberation. How many volunteers are in Grenada now, and how many do you project to be in the country by the end of this fiscal year?

Ms. RUPPE. The White House task force team that went to Grenada in December 1983 to identify reconstruction development needs was joined by our Peace Corp regional director at that time. One of the first things I am proud to say Grenada asked for was the return of Peace Corps volunteers to that island nation. Our regional director brought back requests from the Health Ministry and Education for teachers. Our recruiting process is quite a long involved one. Because we saw the real need to return volunteers to the island, we expedited the arrival of volunteers to Grenada in 1984, that was 1 month after the assessment team came, we had two third-year volunteers volunteer to go. We then went into recruitment efforts to fill requests. Subsequently, the Government of Grenada requests were received in the area of education, health nutrition. By the end of fiscal year 1984, 18 volunteers were serving in these areas. By the end of fiscal year 1985 we expect to have the 30 Peace Corps volunteers. This represents truly a large number of Peace Corps volunteers relative to a population of 87,000 people. It might be perhaps one of our densest per capita island nations.

Senator KASTEN. You have 18?

Ms. RUPPE. We have 18 right now. In September the Peace Corps assigned a new program manager to oversee the program on Grenada and all our reports are that they are doing excellent work, and we're assured of the stability of our program there. So I don't know why they chose to use such an inaccurate allegation.

ZIMBABWE

Senator KASTEN. Have you proposed sending 90 volunteers to Zimbabwe? In your justification material you talk about the People's Republic of China, Brazil, Chad, but there is no mention of Zimbabwe for 1986. Are there any plans for Zimbabwe? Does the 90-volunteer figure make sense to you?

Ms. RUPPE. Actually, I am going to be meeting with their editorial board the day after tomorrow in New York, because I was so upset over such inaccuracies being repeated in their editorial column, especially as I had talked to one of their board who had brought up the subject of Zimbabwe. At the time in our conversation I said to him, sir, cast your mind back to the timeframe that we are talking about and that is this administration in 1981 gave an additional $40 million in aid to Zimbabwe. At that point in time, there was a great need for teachers, and we did discuss with Zimbabwe in fiscal years 1981–82 a proposal to perhaps put teachers there. We sent someone there to look at it. As there was a rise in violence and our budget did not seem to accommodate that, we stopped those discussions.

Why he chose to couple that in a timeframe with Grenada, I would leave to the fact that perhaps there was some other agenda then presented in truth of the Peace Corps activities in this area. I was pleased the Wall Street Journal did choose to publish my letter which I wrote, and I was pleased they said I am surprised that the Journal would base an editorial on the unfounded allegations of a special interest group, the Heritage Foundation. And we set the record straight. It would have taken, I guess, a whole page to set the whole Heritage Foundation straight but we did put that in.

Senator KASTEN. I am not sure the Heritage Foundation is a special interest group. [Laughter.]

No matter which way we go, we should have the numbers right.

CARIBBEAN BASIN INITIATIVE

Ms. RUPPE. The same thing they referred to was our Caribbean Basin Initiative. We happened to have been a leader in that field. Our volunteers with no additional support from the Caribbean funding, have been a good force in seeing the CBI truly works. I would like to submit for the record if I might a different impression from the author of a Heritage Foundation report, a letter from President Reagan commending the Peace Corps for its work in the Caribbean Basin Initiative.

Senator KASTEN. We will make it a part of the record.

[The letter follows:]

THE WHITE HOUSE,
Washington, DC, February 26, 1985.

DEAR MRS. RUPPE: Thank you for your recent letter responding to our directive on the Caribbean Basin Initiative [CBI]. I am pleased that you are giving a high priority to the CBI and that the Peace Corps will expand its activities in this area. You have my whole-hearted support in committing the Peace Corps and its outstanding volunteers to this effort.

The Caribbean Basin Initiative is a long-term effort requiring the unstinting efforts of many agencies. Progress will necessarily be systematic and deliberate because impediments to private sector growth and trade expansion persist. But the headway you have made is encouraging. And, of course, the Peace Corps is particularly suited to work with small and medium-size business, especially in agribusiness.

Thank you for letting me know of the progress the Peace Corps is making to help bring meaningful economic development and growth to the Caribbean. And I thought you would like to know that I am sending your letter to other agencies in the Executive Branch.

Sincerely,

RONALD REAGAN.

CATHOLIC RELIEF SERVICES IN MOROCCO

Senator KASTEN. You state in your justification material that Peace Corps volunteers will be working with the Catholic Relief Services in Morocco. The subcommittee has had an interest in Morocco for a number of different reasons. Can you give me any idea what kind of joint ventures the Catholic Relief Services and your Peace Corps volunteers will be working on; can you characterize or describe briefly that program?

Ms. RUPPE. I would really have to research and get that material to you, Senator. As with many private volunteer organizations, we have ongoing programs with Catholic Relief Services around the world. I am pleased to hear we have an additional one in Morocco, but I would have to get the specifics of that program to you. I know we do a great deal of teaching English there. We have been trying to branch out more into agriculture and well digging, and we are also determined to do more on forestation. I would have to get the specific details.

[The information follows:]

JOINT VENTURES BETWEEN PEACE CORPS/MOROCCO AND CATHOLIC RELIEF SERVICES [CRS]

At present, volunteers are not programmed into any CRS projects. Discussions have occurred between David Burgess, PCD/Morocco, and the CRS staff to explore the following possibilities of Peace Corps Volunteer involvement in CRS programs:

1. One volunteer may transfer from another PC program into CRS's small business development project in Sale. The volunteer would teach socially disadvantaged women skills which they need to get and keep a job, that is, basic math, business office skills, keeping work schedules, et cetera. This is an exciting program in that the businesses who want to hire women have guaranteed jobs for them and are contributing funds for the training program.

2. CRS is starting a new health extension program in which volunteers may be placed in fiscal year 1986. They would work in health outreach, doing nutritional surveying, education, and referral.

3. CRS is involved with the Food for Work and Food for Needy Families Programs. CRS and Peace Corps are discussing the possibility of placing two Peace Corps volunteers in this program to help train Moroccans to develop better distribution systems for the food.

4. CRS has also expressed an interest in a Peace Corps volunteer working as a project director for one of these programs or other programs in which CRS is working.

All of the above joint programming ventures are still in their discussion stage and no decisions have been made as of today.

GUATEMALA

Senator KASTEN. I have one other country-specific question because it is also a country we have been interested in. In Guatemala, you show a slight increase in funding for the program over fiscal 1985 and 1984; with, as we understand it, an increase of roughly 11 volunteers over 1984. It is my understanding also that the plans for an increase are on hold because of a security review. I don't know exactly what a security review is. Can you tell us when you anticipate this review to be completed, and what is the current situation with respect to volunteer safety in Guatemala?

Ms. RUPPE. Well, when I first became Director of the Peace Corps, our program in Guatemala had been toned down considerably due to worries about health and safety of volunteers. Most of our volunteers have been taken out of the upland areas where there was the most instability. Unfortunately, one of the areas of greatest need but also we felt it was not safe. We reduced our program to around 70 volunteers in fiscal year 1981. In 1982 and 1983 we have been slowly rebuilding. We have returned some volunteers to the highlands but we are troubled by what we feel is perhaps a lack of support to really uphold the health and safety of our volunteers. So working with the Embassy, we are in a very close review whether the government is truly, wholeheartedly supporting the security of our volunteers.

We maintain an up-to-date volunteer evacuation plan. We have many different safety identifications for our volunteers. Before we submit for additional volunteers, we are absolutely trying to pursue the President's program in Central America, and we have sent an assessment team to Guatemala to get specific job requests for the initiative for Central America; we still feel we must be able to ensure the health and safety of our volunteers and we are in that process as we talk to people and see what the response of the government is. That will determine whether we will send those additional volunteers there.

Senator KASTEN. We want to be helpful in any way we can be in that regard. I think we are making great progress in Guatemala, but I know you have had some problems.

Ms. RUPPE. Well, we had a death there.

SUBMITTED QUESTIONS

Senator KASTEN. There are a number of other questions which I am going to submit to you for the record. You can get back to us with some answers and also some additional specifics on the Moroccan situation. We have a couple of other witnesses this afternoon. I would like to thank you very much for your testimony. Once again, we look forward to working with you.

Ms. RUPPE. Thank you very much, Mr. Chairman.

[The following questions were not asked at the hearing, but were submitted for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR KASTEN

FY 86 DECREASE IN INTER-AMERICA FUNDING

Senator Kasten: Your justification material shows that between FY 1984 and FY 1985 there was an increase in your program in Latin America of $5,775,000. This was due, in large part, to the emphasis placed on the Central America Initiative, which this subcommittee supported.

However, in your justification material for FY 1986, you show a slight decrease in the Latin American program of $131,000.

You are also projecting 146 more Volunteers in FY 1986 than in FY 1985. If your overall figure is down for Latin America, how will you field 146 more Volunteers? In addition, you testified last year of your intention to double your program in Latin America over a five year period. Is that still your intention?

Director Ruppe: The slight decrease in funding for the Latin American program, while projecting an increase of 146 Volunteers, is in part due to increased strength of the U.S. dollar throughout Latin America. Current exchange rates have given our posts an edge in local economies, where most of our expenses are incurred in local currencies.

During FY 1984, Peace Corps had approximately 600 Volunteers in Central American countries of Belize, Guatemala, Honduras, and Costa Rica. As a result of the Initiative, we plan to increase the number of new Volunteers placed in these countries each year, beginning in FY 1985. In addition, we are trying to re-establish a Peace Corps program in Panama FY 1985. If successful in this effort, we would be increasing the total number of new Volunteers placed in Central America by about 375 per year during the period FY 1985 through FY 1989. This would result in an additional 1,500 Volunteers having served in Central America during these four years.

UNITED NATIONS VOLUNTEERS

Senator Kaston: You say in your prepared statement that "To meet a goal of increased U.S. volunteer participation Peace Corps intends to recruit one hundred new volunteers for The United Nations Volunteer program in both this year and 1986".

Could you tell us more about the "UNV"? Why use volunteers in a multinational program? Also, whose "goal" is it to increase U.S. volunteer participation --The U.S. or the U.N.?

Director Ruppe: First, a point of clarification. We do not intend to place one hundred United Nations volunteers in the periods cited. The one hundred volunteers qualified for service will be placed on a roster from which 35 or 40 will be selected.

The United Nations Volunteers (UNV) program is an international volunteer workforce which recruits volunteers from all UN member countries. Volunteers serve for two year tours primarily in African and Asian countries in mid and upper level positions. UN Volunteers work either for a UN development agency or directly for a host country government project. Since the program began in 1971, the Peace Corps has supported the program by recruiting and paying partial expenses for all American citizens serving as UNVs, as well as providing the United States contribution to the UNV Special Voluntary Fund. This fund pays for transportation and resettlement expenses for third world volunteers.

The U.S., through the Peace Corps, has been a strong supporter of the UNV program, as the UNV provides American volunteers an opportunity to serve in a workforce with men and women from varied national and economic backgrounds. The program also offers the unique opportunity for Americans to serve in countries where there is no established Peace Corps country program. Non-Peace Corps countries which have hosted American UNVs include The Peoples Republic of China, Somalia, Turkey, Equatorial Guinea, Indonesia, Congo and Ethiopia.

The number of UN Volunteers serving from industrialized countries has declined to less than 20% in recent years. Bradford Morse, Administrator for the United Nations Development Program has stated that increasing this number to 40% is a priority of the program. The U.S. has provided in the past, and currently sponsors, the largest number of volunteers from an industrialized nation. The U.S. Mission to the United Nations has reaffirmed its support of Peace Corps' presence in the UNV program, citing not only the history of the U.S. as a founder and major funder of the program, but also by recognizing the contributions that trained American manpower can make to a multinational and multilateral volunteer program.

We are especially proud that nearly half of the over 260 UNVs who have served from the United States are former Peace Corps Volunteers.

FIVE YEAR RULE

Senator Kasten: Present legislation restricts the tenure of Peace Corps employees to no more than 5 years (the so-called "five-year rule"). In April 1984, the General Accounting Office (GAO) suggested that it may be appropriate for the Peace Corps to seek the flexibility of allowing an additional one or two consecutive 30 month appointments to capable performers, beyond the present maximum of two such appointments. GAO stated that this could improve management stability and still permit the Agency to bring in new personnel with fresh ideas.

In developing its legislative program for this year, did the Peace Corps consider GAO's suggestions for modifying the 5-year rule?

Is the Peace Corps proposing any change in the 5-year rule at this time? If so, what is the change.

Director Ruppe: The Peace Corps is not proposing any change in the spirit of the 5-year rule. However we have indicated strong support for Congressionally proposed legislation which would extend the current 5 year rule to 7½ years. We support changing the legistation to permit a third 30 month tour for Peace Corps staff. This would give us improved management both in the field and in Washington. Experienced field managers would be able to bring their recent expertise to the Washington staff. Experienced Washington staff would be available for overseas service, strengthing our field administration. The recruiting operations, in the major cites of the U.S., would have greater management continuity with the additional 30 month tour.

OBJECTIVE EVALUATION

Senator Kasten: In April 1984, GAO pointed out to the Peace Corps the importance of objectivity in developing a sound process for evaluating the quality of the Agency's overseas programs. What is the status of efforts to develop this program?

Have alternative ways for building objectivity into the process been tested? If so, what are the results?

Director Ruppe: In 1984, we conducted a follow-up survey in the four countries where a Country Program Review (CPR) process had been conducted earlier (Paraguay, Tonga, Liberia, and Honduras). The CPR process was consistently rated overall as useful to field staff in planning and managing their overseas operations, especially in planning better communications and negotiations with host officials and for involving volunteers meaningfully in project planning. Benefits from the CPR were seen as affecting all aspects of overseas operations, from training, recruitment, programming, and PCV support to planning, administration, and relations with host officials and other agencies. The full scale reviews, however, were judged too complex for country staff to do on their own and as requiring outside assistance to complete.

A GAO team also went to Paraguay and made an independent on-site examination of how the CPR results had been used over the two past years. They were quite positive about the process and its usefulness for helping guide in-country management decisions.

Based on these results, we modified the CPR process into an ongoing monitoring system to be conducted in-country without direct assistance from Peace Corps Washington. Manuals were distributed to all Country Directors early in FY 85 with the requirement that all posts begin implementing CPR.

Senator Kasten: What is the status of Peace Corps' efforts to develop a sound process for evaluating its overseas program?

Director Ruppe: This system includes number of built-in checks and balances to help assure objectivity. For instance, each country is required to establish a Joint Staff/Volunteer Monitoring Committee to oversee all phases of planning, implementing, scoring, analyzing, and reporting of CPR results. Volunteers, are our best, most candid and least reluctant critics. There are also prescribed steps to ensure that the CPR-Monitoring (CPR-M) process is conducted and reported both in-country to all staff, PCVs, and key host officials as well as incorporated into each post's Country Management Plan & Budget (CMPB) which is submitted to headquarters annually. While no monitoring procedure is foolproof, it would take considerable collusion to prevent discovery of poor performance. The real difference between the old CPR and the new CPR-M thus is not objectivity, but rather the amount of external assistance provided to help conduct the process.

Since this is the initial year of Agency-wide use of the new CPR-M process, we will not know how successful the process will be until the CMPB documentation begins to be analyzed later this year.

ECUADOR

Senator Kasten: In response to a question submitted for the FY 1985 hearing record you stated that the Peace Corps planned a modest decrease in its presence in Ecuador. I see from your justification material that you plan to cut back from 303 in FY 1984 to 225 in FY 1986--a decrease of 78 volunteers in two years (a decrease of 41 from 1985 to 1986).

This is more than a "modest" decrease in the program. This is a concern since Ecuador has recently returned to democracy. I believe we should encourage that country as much as possible. They still have grave economic problems in that country. There is still a broad disparity in income levels between urban and rural sectors. Less than 15% of the population has access to potable water, and 40% of all children under the age of five are malnourished.

Why such a sharp cut to Ecuador?

Director Ruppe: The number of volunteers in Ecuador reached a peak of 303 in FY 1984 due to an extraordinary and expedited placement rate of new trainees, who began their service in 1982. These volunteers finished their two years of service during the first quarter of FY 85. As a consequence, the Ecuador program, which has been placing trainees at a normal level since 1983, returned to its historical base. The management structure in Ecuador is not set up to adequately handle a volunteer level of 300. We therefore had to lower the number of volunteers back to the pre-FY 1984 level in order to assure that all volunteers were receiving the good support and supervision necessary for quality performance. Ecuador has been in the past and will remain one of the largest programs in the Latin American region.

IFCA SUPPLEMENTAL

Senator Kasten: Regarding the FY 1984 Supplemental of $2.0 million: you state in your justification that $451,000 had been obligated as of September 30, 1984.

Those funds are available for obligation until March 31. What further progress have you made on obligation of those funds?

Director Ruppe: Beginning a program of this size, particularly in an unstable and sensitive region, takes both time and care.

I am pleased to say that the entire supplemental appropriation has been obligated, as follows:

Marketing, Recruitment and Placement	$892,200
Inter-American Region	628,800
Overseas Training and Program Support	25,000
Management	454,000
Total	$2,000,000

The money has been used primarily for country needs assessments and site selection, recruitment costs, screening and training volunteers. The management costs include medical services, administrative services, and in-country vehicle costs.

SUN BELT RECRUITMENT OFFICES

Senator Kasten: Have you been able to open the recruitment centers in the Sun Belt that you intended to open? I notice from your statement that at least one center has opened in Miami -- any plans for further centers?

Director Ruppe: We have opened a new Peace Corps Recruiting Office in Miami. In addition, we have established a small outstationed staff in San Diego, which functions as part of the Los Angeles Area Office. We have increased staff in our office in Puerto Rico. There are no further plans to open new offices, absent some future expansion of the Peace Corps which would require more recruiting locations.

DUPLICATION OF EFFORT

Senator Kasten: As you know, this committee is concerned about duplication of effort. We see it often between A.I.D. and other donors everywhere in the world. But we see it most often in Africa.

You describe the Peace Corps Africa Food Systems Initiative in the justification material as a ten year campaign to reverse the decline in food production. You go on to say that the focus will be on such activities as cultivation of improved crop varieties; processing, preservation and storage of food crops. One of the projects we have watched carefully in Africa is the Semi-Arid Food Grain Research and Development Project, which is a multi-donor effort that A.I.D. participates in. A main focus of the SAFGRAD project is farming systems research -- indeed a good deal of your Initiative sounds similar to the SAFGRAD project.

Let me say, first of all, that SAFGRAD has had enormous problems. However, they have had some success in introducing new crops and techiques to farmers in Sub-Saharan Africa, and they already have in place research facilities in several areas of the Sahel.

I realize you mean to coordinate your efforts with A.I.D., but you do see my concern. How can we be sure that in our efforts to "do something" we don't duplicate our own and other donors' efforts in food production and crop research?

Director Ruppe: The issue of duplicaton of effort is critical, particularly as the total amount of money available for development activities is limited. Peace Corps has worked in concert with the SAFGRAD project for over four years, an interaction which will be useful for the successful implementation of the Africa Initiative. Peace Corps has a unique role to play in the communication of gains from research to the farmers for the application of better methods. Each link is important but, with regards to African agriculture, some of the weakest have been the final links of on-farm testing of new technologies and then the transfering of tested new methods to the farmer (extension). With 24 years of village level experience, Peace Corps has developed unparalleled access to the small farmer, placing us in a position to facilitate the work of SAFGRAD, IITA and other international and national research/extension efforts. With the Initiative we intend to place a stronger focus on the utilization of that role and on the closer integration with our partners in the development process.

QUESTIONS SUBMITTED BY SENATOR HATFIELD

STAGE TWO COUNTRIES FOR AFRICA INITIATIVE

Senator Hatfield: Have any decisions been made regarding those countries? If so, what nations might be selected over the coming fiscal years?

Director Ruppe: Our current plans call for programs in Niger and Lesotho to follow Mali and Zaire in the implementation of the Initiative. Given our proposed budget levels, we plan on doing the initial program development in those countries during FY 1986 with volunteer input in mid to late FY 1987. Decisions on further expansion will be based upon our assessment of specific program potentials and our experience in the pilot countries. Currently, Senegal, The Gambia, Burkina Faso, Togo, Sierra Leone, and Botswana are under consideration.

PER COUNTRY COSTS OF INITIATIVE

Senator Hatfield: What would be the per country costs of establishing these programs under the Food Systems Initiative?

Director Ruppe: AFSI program costs, like those of all our programs, will vary greatly from country to country. In our two pilot countries, Mali and Zaire, for instance, start-up costs are estimated to be $800,000 in Mali and $1.7 million in Zaire due to the higher number of new volunteers going to Zaire but also due to the much higher costs of supporting volunteers in that country--lack of infrastructure, distances to travel, etc.

FUNDING AT FY85 LEVEL

Senator Hatfield: In FY 85 the Peace Corps received $128.6 million compared to the FY 86 request level of $124.4 million. Were the Congress to restore Peace Corps funding to the FY 85 level, how would these additional monies be spent? Would these funds make it possible to expand the African Food Systems Initiative and at what level?

Director Ruppe: Given that the African Food Systems Initiative is our highest priority, the additional funds would most certainly be used to step up the expansion of the Initiative. Niger and Lesotho could both be programmed for volunteer input in FY 86, moving up our implementation schedule by one year. Although, prior to the site visit and program development process in those countries, it is difficult to give an exact figure on what level of new volunteers that would represent, we feel that between 30-50 additional volunteers could be added to each program in the Initiative's first year.

GOAL OF 10,000 VOLUNTEERS

Senator Hatfield: Does the Peace Corps have a goal to reach a certain number of volunteers over the next five years? Is the goal of 10,000 volunteers a goal that could be reached? If so, what level of funding would be required to reach this goal?

Director Ruppe: Major current goals include the expansion of Peace Corps programs in Central America and the development of pilot Africa Food Systems programs in four countries. The total number of volunteers we field, however, depends both on the requests we get from host countries and the money appropriated.

If the requests continue to be similar to those we are getting now, and we do not begin any major new country programs, a program level of 8,000 volunteer years of service annually would be feasible. Including trainees, we would have about 10,000 people overseas at the end of each year. Such a program would cost about $200 million per year and would need to be evaluated in light of total budget priorities, foreign policy objectives and agency capabilities.

QUESTIONS SUBMITTED BY SENATOR INOUYE

READJUSTMENT ALLOWANCE

Senator Inouye: As you know, I have acted in the past to ensure that the volunteer readjustment allowance was, itself, adjusted to offset the erosion of inflation in the United States.

What is the present monthly payment to volunteers for their readjustment allowance?

Director Ruppe: The readjustment allowance is currently $175 per month.

Senator Inouye: When was this allowance last increased to off-set inflation?

Director Ruppe: This allowance was last increased in February, 1982.

Senator Inouye: If the readjustment allowance were to be increased to off-set inflation what would the monthly allowance be for fiscal year 1986?

Director Ruppe: If the allowance were to be increased to offset inflation the monthly allowance would be about $205 in 1986.

Senator Inouye: I believe the 1982 amendments to the Peace Corps authorization bill gave you the authority to determine the readjustment allowance level. Is this correct? Have you approved any increases since that time?

Director Ruppe: I have not approved any increase since 1982. At the current level, a volunteer completing two years of service would receive over $4,000 in readjustment allowances. This is more than many people can save in two years and we use it as a recruiting inducement. Volunteers also receive 1 year non-competitive eligibility and our Office of Returned Volunteer Services has worked with a number of colleges and universities to give credit and fellowships for Peace Corps service.

VOLUNTEER LEADERS

Senator Inouye: What is the current status of the Volunteer Leaders? Are they still carried on the books as Volunteers or have they been redesignated Volunteer Leaders?

Director Ruppe: Volunteer Leaders are treated in almost every way like ordinary Volunteers. They are not Peace Corps staff. They receive the same living allowance as other Volunteers. Their responsibilities, however, are slightly different. They are generally more experienced and act as administrative and technical contact points in the field. Their exact duties differ on a country by country basis.

DIRECTOR'S VISIT TO MALI

Senator Inouye: I was pleased to learn that you took the time to remain in Mali for four days after the departure of Vice President Bush. It is not often that a Peace Corps Director has the opportunity to spend that amount of time in one country.

In your visits to Peace Corps projects, did you find evidence of a lasting contribution to development? Did you, for example, visit the site of any Peace Corps projects which were funded more than three years ago?

If so, what did you find? How did these visits influence your views on the type of projects to be funded under the Africa food Systems Initiative?

Director Ruppe: My trip to Mali strongly reinforced my belief that we are on the right track with our Food Systems Initiative. The successful projects I saw, and the needs and opportunities as expressed through the words of our wonderful volunteers now serving there, all pointed in the direction of the small scale, carefully planned, integrated projects we see as central to the Initiative. The Malian authorities agreed. Several of our volunteers are doing excellent work supporting local vegetable gardening efforts using simple irrigation techniques. With the unpredictability of the rainfall in that area, irrigated agriculture has a definite role to play. A focus of Initiative activities will be to support and develop vegetable production, processing and marketing. The Minister of Agriculture with whom I met -- offered the full support of his ministry to Initiative.

600 NEW VOLUNTEERS

Senator Inouye: You note that 600 new volunteers will go to Africa this spring and summer to work in current programs

In what area or project activities will the volunteers be working?

Director Ruppe: Volunteers will be working in 22 countries. They are:

Benin
Botswana
Burkina Faso
Burundi
Cameroon
Central African Republic
Kenya
Gabon
Ghana
Lesotho
Liberia
Malawi
Mali
Mauritania
Rwanda
Togo
Senegal
Sierra Leone
Swaziland
Tanzania
Zaire
Niger

The Volunteers will be working in a large variety of projects including: animal and crop production, water supply and irrigation, pest control, forestry, health and nutrition counselling and home economics.

AFRICA INITIATIVE TEAMS

Senator Inouye: How large will the teams of volunteers be under the Africa Food Systems Initiative? What support will the Peace Corps provide these teams? Will Peace Corps staff be assigned to each team? How long will the teams remain in Africa? Will they remain at one location for the duration of their tour?

Director Ruppe: We are currently planning the organization of the teams - we expect they will be organized differently in different areas. This lets us tailor the team structure to meet local conditions and needs. Teams can be organized in two general ways. First, we could use more experienced volunteers as team leaders to provide guidance to volunteers with less experience. This makes valuable experience 'go further'. Second, we could organize teams to combine volunteers with a variety of complementary skills. This approach should result in a whole that is greater than the sum of its parts.

Each team will stay in one geographic area. We expect to have several 'generations' of volunteers form an ongoing team. The changes we are working for do not come easily; we must accept the need for long term commitment to an area.

EQUATORIAL GUINEA AND GUINEA CONAKRY

Senator Inouye: You propose to open two new Peace Corps programs in Africa: Equatorial Guinea and Guinea Conakry. What is the proposed sizes of these programs? How much will be budgeted and how many volunteers will be assigned to each country?

For each of these countries, please provide the budgeted costs for volunteer support and those for management.

Director Ruppe: At this time, we envision a small pilot program of 10-15 volunteers in each country for FY 1986. Volunteer teams will consist of "third-year", i.e., people who have already successfully completed a two-year tour in another country. Small programming teams will visit each country this fiscal year to determine which program areas volunteers will work in, but it appears that the emphasis will be on agriculture and education (English teaching).

New country entries experience significant start-up costs. Based upon our most recent experience opening a program in Africa, we are estimating a unit cost of approximately $30,000 per volunteer year. Based upon an estimate of 12.5 volunteer years for each country, we forecast a requirement of $375,000 for each country, split approximately $225,000 for volunteer operations and $150,000 for program support. We would like to point out that Guinea Conakry is considered an "excess currency country" and we are exploring with OMB the best ways to offset all of the volunteer costs with available excess currency.

COLLABORATION WITH AID

Senator Inouye: I am very interested in Peace Corps collaboration with the Agency for International Development.

What specific projects were conducted in collaboration with AID in fiscal year 1984? What is proposed for fiscal year 1986?

Director Ruppe: Cooperation between the Peace Corps and AID continues to increase, both in the field and at the inter-agency level.

For the Peace Corps, this has meant significantly increasing the Agency's ability to develop specific programs by fielding greater numbers of volunteers and/or by providing those volunteers with increased levels of technical support.

FY 1984 marked the establishment of an AID-Peace Corps coordinating committee co-chaired by myself, and Peter McPherson, AID Administrator.

The following Participating Agency Service Agreements with AID (PASAs) were in effect during FY 1984:

FORESTRY: Established in 1980 and projected through 1988. This initiative is delivering village-level forestry assistance while assessing opportunities for collaboration related to the Food for Work PL 480 initiative. Several technical multi-country agroforestry in-service training workshops were held for over 150 volunteers and Host Country counterparts. In addition, eight PL 480 African country assessments were held to develop pilot projects for 1985.

COMBATTING CHILDHOOD COMMUNICABLE DISEASES (CCCD): The CCCD program supports volunteers assigned to Sub-Saharan African Countries working at the national and village levels in programs designed to lower the high morbidity and mortality levels in those countries by focusing on the eradication of the most prevalent communicable diseases.

SMALL PROJECTS ASSISTANCE PROGRAM (SPA): In operation for over two years, the program funds small development activities identified by volunteers working with local community organizations in thirty-four countries. It has greatly enhanced Peace Corps' ability to promote self-reliant development activities at the local level, particularly in food production, energy and small enterprise development.

TECHNICAL ASSISTANCE: Resources are available to provide technical assistance to Volunteers participating in the SPA program at the local level. The technical assistance includes training, program development and on-site technical backstopping in food production energy and small enterprise development.

ENERGY: Peace Corps' first PASA with AID came to a close in FY 84. This PASA allowed the Peace Corps' to provide Volunteers with pre-service training and on-site technical assistance in a variety of renewable energy technologies.

ORAL REHYDRATION THERAPY (ORT): The Peace Corps ORT agreement with AID, signed in FY 1984, provides for programming consultations, technical assistance and in-service training for Volunteers and their counterparts, and technical workshops for Peace Corps staff, ministry officials and representatives of other organizations in the broad program areas of nutrition, sanitation, and health education related to ORT methodologies. ORT assistance was provided to the Dominican Republic, Haiti, Jamaica, Nepal and The Philippines.

NUTRITION: The 1984 Peace Corps nutrition agreement with AID supports training activities in the area of vegetable gardening for nutrition improvement. In-service training pilot projects sponsored under this agreement were held in Honduras, Western Samoa and Ecuador.

FY 86 Amendments to the following Participating Agency Service Agreements (PASAs) are being discussed as follows:

SMALL PROJECTS ASSISTANCE: This fund will be expanded in each country in FY 1986. The funds add the critical resource which gives projects a self sustaining viability. Project emphasis will be broadened to include health.

TECHNICAL ASSISTANCE: Resources will be expanded to provide technical assistance to volunteers participating in the Small Projects Assistance (SPA) program. Included in the expanded format will be resources for health projects previously excluded from SPA.

FORESTRY: The forestry program, already considered the best in the world by the World Bank, will be greatly expanded under the Food for work PL 480 initiative.

PEACE CORPS GOALS

Senator Inouye: I think you will agree that the Peace Corps is not primarily a development agency.

What assurances can you provide the committee that Peace Corps collaboration with AID does not threaten to bureacratize Peace Corps volunteers and, thereby, undermine other goals of the Peace Corps?

Director Ruppe: Peace Corps and AID in all discussions recognize the distinctions and commonalities of each others' programs and objectives. It is at those complementary intersections that collaborations between the two agencies are focussed. Specifically, the Peace Corps is better at reaching the grass roots level and working with small scale development projects. While this is a critical element to micro level development schemes, it is not within AID's capacity to directly reach this level. AID, however, provides assistance in the development and management of projects, provides resources, technical assistance and training to the Peace Corps in support of the volunteers' micro level efforts.

PRIVATE SECTOR DONATIONS

Senator Inouye: How was the more than $220,000 in private sector donations programmed last year? What was the nature of the In-Kind contributions and how were they used?

Director Ruppe: PARTNERSHIP PROGRAM

Peace Corps Partnership Program funded 115 projects in 25 countries during its 20th Anniversary campaign (October 1, 1983 to December 31, 1984). The projects ranged in scope from the construction of a schools to the installation of a four-village water system. Project costs vary from $500 to $5000.

Funds are donated by schools, churches, civic organizations, foundations, returned Peace Corps volunteers, businesses and individuals. Donations are usually earmarked for specific projects, although occasionally a donor asks us to use the money where it is the most needed. These projects come to us as community-initiated self-help development proposals, backed by 25% of local resources (financial, labor, raw materials). Every Partnership project is coordinated by a Peace Corps Volunteer on the scene. Also, U.S. and Overseas Partners are encouraged to enter into an exchange of cultural items including letters, pictures and artifacts.

PEACE CORPS PARTNERSHIP PROGRAM OVERVIEW

20th Anniversary Campaign

October 1, 1983 - December 31, 1984

	NANEAP	AFRICA	INTER-AMERICA	TOTAL
Projects Submitted:	32	42	66	140
Project Costs:	$59,385.38	$76,523.64	$126,096.95	$262,005.97
Average Project Costs:	$1,855.79	$1,821.99	$1,910.56	$1,871.47
Campaign Authorizations:	$36,346.10	$66,067.93	$87,553.44	$189,967.47
U.S. Sponsors:	59	76	121	256
Average Donations:	$616.04	$869.31	$723.58	$742.06
Projects Completed:	25	35	55	115

Total Cash and Pledged Contributions: $220,514.92

IN-KIND CONTRIBUTIONS

In FY 1984 Peace Corps began a concentrated effort to identify potential uses for and donors of In-Kind contributions. The contributions received were valued at approximately $224,000 (the value of In-Kind gifts and contributions is assigned by the donor).

This Office serves as coordinator and liaison, matching project requests for materials and donors of those materials. At least 27 different private sector sources donated materials or services.

Some examples:

Vegetable seed (estimated value $148,00)
Educational materials (technical manuals, encyclopedias)
Paint (32 fifty-five gallon drums)
  -used in construction and other community development projects
  10 Computers
  -used in pilot demonstration projects in Thailand (6), Haiti (1), Kenya (1), and at Peace Corps Headquarters (2), to monitor and assist the field projects

And to get the items to where they're needed:
  transportation by land, sea and air within the U.S.
  and overseas packaging, storage and handling services

More than half of the 59 countries in which Peace Corps has volunteers have benefitted or will benefit from these donations, particularly the Inter-America and Africa regions.

INITIATIVE COMPARISON

Senator Inouye: What are the estimated costs of the African Food Systems Initiative?

Director Ruppe: In 1986, the estimated cost is $3.2 million, to place 150 new trainees in Zaire and Mali.

Senator Inouye: What are the estimated costs of the Central American Initiative?

Director Ruppe: In 1986 the estimated cost is $8.5 million to place 375 new trainees. These, together with the 1985 IFCA Volunteers, will produce 362 volunteer-years of service.

Senator Inouye: What portion of each of these initiatives can properly be regarded as new activities and what portion is actually related to a restructuring of ongoing activities?

Director Ruppe: The initial assessment team findings for Mali and Zaire indicate that activities will involve new programs and projects and not be simply a restructuring of existing projects.

IFCA programming reflects both new programs and enhancements of ongoing programs. In 1985, approximately 80% of the volunteers were engaged in educational activities. In 1986, our programs will expand into new areas linking education to production. At least 60% of the new volunteers will be in these programs, depending upon host country requests for volunteers.

Senator Inouye: What constraints do these initiatives place on funding of ongoing Peace Corps programs?

Director Ruppe: In 1986, funding for other countries will be held constant or reduced to allow expansion in Central America and implementation of the Africa Food Systems Initiative in Mali and Zaire.

Senator Inouye: What elements of Peace Corps activities will have to be reduced in order to fund these initiatives while absorbing the $4.2 million reduction in funding proposed for fiscal year 1986?

Director Ruppe: As much as possible cost reductions will be taken in headquarters and management offices. The $4.2 million reduction assumes that the 5% pay reduction will be implemented ($1.0 million savings), one-time costs in 1985, such as the implementation of a central computer system, will not have to be funded in 1986, and discretionary purchases for items such as vehicles and equipment will be made in 1985 rather than 1986. Thus, our overall program will remain at about 3,000 volunteer years of service in 1986.

QUESTIONS SUBMITTED BY SENATOR LEAHY

13.6 MILLION IN FY85

Senator Leahy: You requested $115 million for FY85. We gave you $128.6 million. Have you programmed that extra $13.6 million which we gave you, and if so, for what?

Director Ruppe: We have programmed the $13.6 million as follows:

Volunteer Operations	$ 7.7 million
Recruitment and Development Education	$ 1.6 million
Program Support	$ 4.3 million
Total	$13.6 million

NUMBER OF VOLUNTEERS

Senator Leahy: What will be the total number of volunteers in the field in FY85? What do you project that number to be for FY86, assuming the Congress appropriates the $124 million you have requested?

Director Ruppe: We project about 6,100 volunteers and trainees in the field by the end of FY 85. We are projecting our onboard strength of volunteers and trainees to be about 6,300 at the end of 1986. This equates to 5,000 volunteer years of service.

ACCEPTANCE RATES

Senator Leahy: Is it true that in 1984 16,723 people applied to be volunteers, 10,195 were considered, and only 2,977 were accepted?

How many fully qualified applicants did you turn away last year?

Director Ruppe: The numbers stated are correct for FY 1983. In FY 1984 14,242 applied, 6,163 were found qualified and 2,794 were accepted.

The second part of the question is complex. It is very difficult to determine how many qualified applicants we turn away in any given year, but it is surely several thousand, perhaps more. Part of the problem is budgetary; with more funds we could place more volunteers. Part of the problem relates to the skills of the applicants. Peace Corps responds to requests from overseas for volunteers with specific skills in such fields as agriculture, mathematics and science, engineering, and other fields. There are never enough indivduals in some of these areas to meet overseas demand. There are many more Americans, with a great desire to serve who do not have these "scarce" technical skills, Some of these we can accept; many we must turn away. Sometimes Peace Corps can bridge the gap by providing special training. Inland Fish Ponds and Community Vegetable Gardening are two examples. Such training does, of course, involve additional cost.

COMMITTEE FOR RETURNED PEACE CORPS VOLUNTEERS

Senator Leahy: Is it true, as the "Committee for Returned Peace Corps Volunteers" claims, that more than half of the requests for volunteers are not passed on to the United States by Peace Corps Country Directors because they know the budget is inadequate to support so many requests?

Director Ruppe: Country Directors consult with host country governments in developing program submissions. Requests from host country ministries which our staff feels are outside of our capacity to fill, involve inappropriate roles for volunteers, or substantially exceed our anticipated budget levels, will be part of this consultation process, and may never be submitted to Washington. As a part of our planning process, Peace Corps has identified a plan for volunteer requests which we expect to fill in FY 86. While the Country Director could identify other assignments through our programming process if there were no budgetary constraints, this process takes time. It certainly would not result in twice as many requests in FY 86 as we now anticipate.

BRAZIL, CHINA. GUINEA AND CHAD

Senator Leahy: You report that Brazil, China, Guinea and Chad have expressed interest in your program, and that you plan to select one of these for a new Peace Corps program. If each of these countries turn out to be appropriate for Peace Corps volunteers, will you expand your program into each of them? If not, why not? Would your answer be different if you had additional funds for this purpose?

Director Ruppe: New country entries reflect our proposals for the Peace Corps budget. Our planning assumptions were made for FY 86 based on two country entries in Africa region, one in Inter-America region, and one in North Africa, Near East, Asia and Pacific region. Whether entries into any of these countries become realized in FY 86, depends on program priorities at that time. Most important, however, is the cooperation and consent of the host countries involved. If sufficient money were available to accomplish country entries and to provide the appropriate level of volunteer support, we would certainly expand our programs into other countries.

PRESIDENTIAL SUPPORT

Senator Leahy: In 1981 President Reagan said that Peace Corps volunteers "have done much to replace fear and mistrust with mutual understanding. If Congress increases Peace Corps' funding and visibility, Americans may become more aware of the needs of the Third World, and feel better about foreign aid in general."

Why are you requesting a funding decrease for FY86?

Director Ruppe: Peace Corps supports the Administration's drive to reduce the federal deficit.

We have based our 1986 program on several assumptions. First, a pay cut of 5%, as proposed by the Administration, would save about $1 million per year. Our 1985 Budget includes nonrecurring costs associated with our ADP conversion and other items. Where possible, we intend to fund items such as vehicles and leases in 1985 rather than 1986.

Senator Leahy: Has President Reagan changed his mind about the value of the Peace Corps?

Director Ruppe: President Reagan has strongly supported the Peace Corps on several recent public occasions, including the National Christmas Tree Ceremony and his most recent State of the

Union Message. He also personally expressed his appreciation for Peace Corps' accomplishments in the Caribbean Basin Initiative by circulating our progress report on that program to other foreign affairs agencies.

In addition, on Tuesday, April 23rd, the President honored 45 Peace Corps Volunteers who are on their way to Africa to work in agriculture and agriculture related programs. In his words of support he said he was, "sending them off to Africa on a mission of aid and good will, and that these Volunteers made him proud and grateful."

INTER-AMERICAN FOUNDATION

STATEMENT OF DEBORAH SZEKELY, PRESIDENT, INTER-AMERICAN FOUNDATION

ACCOMPANIED BY ROBERT MASHEK

PREPARED STATEMENT

Senator KASTEN. Our next witness is Ms. Deborah Szekely. We will insert your entire statement in the record. If you could briefly summarize for us now, we will move directly to questions.

[The statement follows:]

PREPARED STATEMENT OF DEBORAH SZEKELY
PRESIDENT
INTER-AMERICAN FOUNDATION

Introduction

Mr. Chairman, it is an honor for me as President of the Inter-American Foundation to appear before the Subcommittee on Foreign Operations of the Committee on Appropriations to testify on the Foundation's budget request for Fiscal Year 1986. This is my first appearance before a Committee of Congress, and I am delighted to have this opportunity to discuss the Foundation and offer you my interpretation of our mission. This request will enable the Foundation to carry out our work in Latin America and the Caribbean and to reaffirm our faith and support for programs designed by the poor to improve their lives and their communities.

The Foundation has been able to function so well largely because Congress made it an autonomous agency that strives to be apolitical and non-partisan in its development efforts. The Foundation will continue to make its grants in accordance with its Congressional charter.

In this context, my statement to the Members of this distinguished Committee is a two-fold pledge: first, to carry on the Foundation's tradition of support for grassroots development and, second, to continue sharing the lessons learned from the Foundation's experience with similar but much larger government and non-government agencies, as well as the greater development community.

The Inter-American Foundation is best appreciated by examining its origins and, most importantly, its accomplishments in the field. Therefore, my testimony will first focus on the Foundation's historical development. The second part of my testimony will focus on my recent travels to projects supported by the Foundation over the past five years. These site visits and my conversations with campesinos and community leaders in the field clearly show that the Foundation's support has contributed significantly beyond the dollars spent to the economic and social advancement of many poor people in Latin America and the Caribbean. Following this discussion, I will outline in brief the Foundation's budget request and program highlights for Fiscal Year 1986.

The Origins of the Inter-American Foundation

When the Inter-American Foundation was created in 1969 by the Congress, it was recognized that traditional development assistance programs were not reaching the great majority of poor people in Latin America and the Caribbean.

Therefore, the Foundation was mandated to support, on a people-to-people basis, the self-help development efforts of the poor in Latin America and the Caribbean. Unlike larger, bilateral foreign aid programs, the Foundation was expected to work through private channels to support local institutions that promote broader community participation in development. In this work, the Foundation was to place primary emphasis on improving the daily lives of the poor.

In brief, the Congress found substantial need for a new, flexible approach to development assistance that would respond directly to the aspirations of poor people for a better life working through locally based and supported institutions.

The Foundation was created and functions, therefore, to involve the United States Government in grassroots development by:

1. strengthening the bonds of friendship and understanding among the peoples of this hemisphere;
2. supporting self-help efforts designed to enlarge the opportunities for individual development;
3. stimulating and assisting effective and ever wider participation of the people in the development process; and
4. encouraging the establishment and growth of democratic institutions, private and governmental, appropriate to the requirements of the individual sovereign nations of this hemisphere.

The Foundation is a federally chartered corporation overseen by a seven-member Board of Directors, four of whom are drawn from the private sector. Three Board members are appointed from among officers of agencies of the United States Government concerned with inter-American affairs. All Board members are appointed to six-year terms by the President of the United States with the advice and consent of the Senate. The President of the Foundation, selected by the Board, is the chief executive officer of the corporation and manages its day-to-day activities. The Foundation's staff, numbering 67 in fiscal year 1985, are all civil servants who review and recommend for support projects designed and implemented by private groups in Latin America and the Caribbean.

The Foundation's Board has played a key role in ensuring that its program adheres to its Congressional mandate. In the Foundation's early years, Assistant Secretaries of State for Inter-American Affairs Charles Meyer and William Rogers, both of whom served on the Board of Directors, informed all United States embassies in Latin America of the Foundation's autonomy and its independence from the State Department. In addition, the Foundation's first Board of Directors, chaired by Augustin Hart, former vice-chairman of the Quaker Oats Company, developed the Foundation's basic grant-making criteria which have remained unchanged by successive Boards and which are still used to select projects for support from among the large number of proposals received.

Both the institutions seeking Foundation funding and the activities which they propose must meet these grant-making criteria:

Criteria on Institutions

1. Grants are made primarily to local private organizations in Latin America and the Caribbean.
2. Organizations receiving grants must be non-partisan and must not engage in political activities.
3. Grants are made to established organizations with competent, committed leadership, a good record of performance, and support in their local communities.
4. Grants are made to organizations that are democratically organized and managed.

Criteria on Project Activities

1. Grants support activities benefitting poor people who participate in the design and management of their development projects.
2. Project activities must be technically and managerially feasible and have the support of the local community.
3. Grants should support activities that will strengthen the organization and enable it to assume subsequent tasks.
4. Grants should support a broad range of activities that

are innovative and experimental, and offer promise for expansion or replication in other settings.

5. Grants should support activities that can be sustained with local support beyond the period of the grant.

Over the past fourteen years, the Inter-American Foundation has made about 1800 grants worth $190 million in 35 nations throughout Latin America and the Caribbean. Many grants are made to grassroots organizations such as agricultural cooperatives, community associations, and small urban enterprises. Grants are also made to larger organizations that work with local groups and provide them credit, technical assistance, training, and marketing services. More than half of all Foundation grants are for less than $50,000, and under my grant management plan we expect that the number of grants in this category will increase substantially.

Foundation grantees have helped themselves, their families, and their communities to take an important step up the ladder of development. These grants have had an impact on the lives of many poor people. At the same time, individual project successes have been studied and the lessons learned shared with other communities in Latin America and the Caribbean where this knowledge can be applied. I am also happy to note, Mr. Chairman, that the Foundation's program has served as a model for other institutions, including the African Development Foundation, and the Inter-American Development Bank, which has established a small-projects program.

Site Visits

During my first six months as President of the Foundation, I have visited over 40 Foundation supported projects in the Dominican Republic, Mexico, Costa Rica, Argentina, Paraguay, and Colombia. In each of these six countries, in the company of the Foundation's representatives, I have looked for tangible gains by the people who have received Foundation grants. Based on my visits, I believe the Foundation has succeeded in its basic mission - enabling poor people to carry out and manage, in many instances for the first time, activities which improved their social and economic situation and which contributed to their self-sufficiency. What follows are some examples of these projects.

Colombia Field Visit

In September, 1984, shortly after assuming my duties as President of the Inter-American Foundation, I travelled to Colombia where the Foundation has an active and diverse portfolio. Since 1971, the Foundation's work in this country of 28 million has supported the efforts of over 140 organizations, providing education and training to rural and urban communities, credit to small farmers and businessmen, establishing consumer stores to help producers move their wares, and supporting applied research on the problems of the poor. I visited with ten grantee organizations - urban community development groups, clothing and craft weaving associations, rural farmers, and crop-marketing associations. I was impressed with the grantees' desire to better themselves through hard work and investment of their limited resources. I also concluded that the Foundation identified projects and people which have the strong support of their communities. My visits with the members of two such organizations were particularly instructive.

The Fundación Servicio de Orientación Juvenil (the Service Foundation for Juvenile Orientation) first received support from the Foundation in June, 1976. Orientación Juvenil is a private, non-profit educational institution founded by lay and church professionals to provide vocational and management training to the street children of Bogotá, known as gamines. Training and counselling is done at the Don Bosco vocational school. Orientación Juvenil has complemented the work of Bogotá's public juvenile protection agency which also runs experimental education programs for poor children.

The gamines are ragged children who sleep in doorways and beg or steal to feed and clothe themselves. Most are not orphans but children from homes where they have been subjected to violence and other abuses. Many gamines are refugees from the public school system and are unlikely to succeed in a standard school setting. The Don Bosco vocational school, however, does not approach the gamines as "drop-outs", but as children who, having taken responsibility for their futures, now want to learn marketable job skills. The school's methodology includes maximum participation of the learner in the educational process, the creation of a learning community, and attention to individual talents and goals within the group. The program involves approximately 1000 children, 250 in each of four semesters.

Through the Foundation's support, the Orientación Juvenil has equipped four workshops and educational facilities for classroom study, on-the-job training in tool and die, truck repair, metal work, electronics and solar heating, production and marketing, job-counselling, and post-program monitoring. The production and marketing components of the school are helping it to become a self-supporting institution.

In 1983, the first class of some 25 young men, former gamines, graduated from the vocational school. Most have found jobs and several are advancing their educations. This cycle should be repeated for many years to come. The gamines project has been successful where other attempts have failed to brighten the prospects of the street children. Foundation support has helped them to learn trades and develop stability in their lives. Our grants over a six-year period have accomplished a great deal.

The Asociación Colombiana de Promoción Artesanal (ACPA) (Colombian Association to Promote Crafts) was formed in 1966. The founders, from diverse areas of the country, shared a common interest in popular art and handicraft and a concern for the economic and social problems of artisans. The members of both the national and provincial boards of ACPA are volunteers, primarily women. ACPA has only a handful of paid employees. ACPA's major undertakings to date, which have served as spring-boards for other projects, were the creation of the Museum of Folk Art and Popular Tradition in Bogotá and the production of a simple accounting and business management manual which has been widely distributed to artisan groups in Colombia and other countries in Latin America. The museum's popular craft shop and restaurant provide artisans with ready markets for their products and help to defray ACPA's administrative costs.

The Inter-American Foundation's grant, made in 1977, enabled ACPA to extend its outreach program to local artisans, so that they could organize, preserve, and market their products more effectively.

In Guacamayas and Boyacá, weavers have increased their competitiveness in local and export markets after ACPA suggested minor changes in their design and marketing strategies. Products from Guacamayas were recently featured in Cromos Magazine, a national publication. As a result of this project, individual groups of artisans in Nariño (laquer workers) and Sucre (hammock makers) have established their own marketing organizations. These two new base groups have developed thriving crafts enterprises.

I was particularly impressed with ACPA's simple accounting and business management manual, Contabilidad para Artesanos, (Accounting Guidelines for Artisans) produced with Foundation support. It has been widely distributed to artisan groups in Colombia and other Latin American countries. Using simple language and pictures, this manual is helping these artisans become responsible and successful entrepreneurs.

Dominican Republic Field Visit

During December, 1984, I travelled to the Dominican Republic to review seven organizations working to improve living conditions among the poor in this country of 6 million. Since 1972, the Foundation has made 54 grants in the Dominican Republic totalling $8,552,000. Foundation grants are assisting small business enterprises, small farmers associations, women's associations in rural communities, community service groups developing housing and water systems for the poor, and training institutions. These programs continue despite the existence of a severely depressed economy.

As the Members of this distinguished Committee are aware, the Dominican Republic is suffering from a prolonged recession caused by high production costs and low international prices for its principal exports. Despite the economic problems, private development agencies and base groups remain interested in addressing, on a small scale, the problems of the poor in their communities. The Foundation continues to support many of these agencies while encouraging private sector involvement in their efforts.

My contacts with the Foundation's Dominican grantees were instructive and made me proud of our work among that country's poor. I was most impressed with one small group, the Asociación San José (San José Association) which was founded in 1979. This group is a farmer association of 28 families who pooled together their scarce resources to purchase farm land. In 1983, after considerable effort the association acquired 18 acres and obtained a loan from the Dominican Agricultural Bank to buy pigs. The Association has used its own resources and labor to construct a water supply system and a community center for educational programs. I am pleased to note that Peace Corps volunteers have provided technical assistance to the farmers.

In September, 1984, about one month after making its request to the Foundation, the Asociación San José received a $12,300 grant to expand its pig production by constructing improved rearing facilities and increasing the stock from 17 to 40 sows and boars. The Association also proposed raising corn for pig meal.

During my visit with the group's leaders, who are democratically elected, I learned that the Association will soon begin selling live and slaughtered pigs to local residents and to markets in the nearby city of La Vega. The farmers will also experiment with new mixtures of meal to reduce their feed costs. The Foundation's rapid response to the initiatives of the Asociación San José is a marvelous example of our mandate in action.

Mexico Field Trip

I have a very special interest in the Foundation's programs in Mexico. First, the Inter-American Foundation is the only U.S. development agency currently working in that country. Second, I have owned and managed a Baja California business for 45 years and have lived in some of Mexico's poorer communities. In 1961, I invited a delegation of the Board of Directors of Save the Children Federation to several of these communities and urged the Board to establish a program in that country. The Federation's subsequent decision to do so marked its first such effort in Latin America.

This past February, I visited the communities in which the Cooperativa Sin Fronteras (Without Borders Cooperative) is working. The Cooperative runs community development projects in Querétaro, a rural area inhabited by many migrant farm workers who travel to the United States six months of the year. Recently, the Cooperative built two consumer stores and a secondary school. In 1982, the Inter-American Foundation provided $20,000 to the Cooperative which it matched with its own funds and in-kind donations worth $65,000, to construct a system of gravity-water cisterns and irrigation ditches, a chicken farm, pig pen, and consumer store. I was very impressed with the ambition of its members - for all of the project activities were based on their hard labor. The Foundation's support has helped improve the living conditions of many families and has created new sources of income and employment in their own communities. Since 1982, only two of aproximately 60 workers involved in this Foundation-supported project have travelled to the United States as undocumented aliens. Prior to 1982, almost all of these workers had made the annual trek north so that they could support their families in Mexico.

I ended my trip to Mexico with a visit to Monterrey where I met with the principals of the Asesoría Dinámica a Microempresas, A.C. (ADMIC) (Dynamic Advisory Group for Small Businesses) which received $245,910 in 1984 from the Foundation to provide expanded technical and financial services, including low-interest loans, to carpenters, shoemakers, upholsterers and other family-run businesses. The 200 small businesses helped by the Foundation grant have individual assets of $10,000 or less and produce goods for local markets. They are also benefitting from a series of business administration courses designed to improve their operations and teach them how to calculate their costs as they price their goods so that they can make a reasonable profit.

In summary, Mr. Chairman, throughout Latin America and the Caribbean the Foundation is supporting many serious efforts to foster self-help employment and educational opportunities for the poor as a vital first step up the ladder of development.

The Budget for Fiscal Year 1986

Mr. Chairman, the remainder of my testimony focuses on the Foundation's Fiscal Year 1986 Budget. Detailed information on the Foundation's activities, including a description of each project funded during 1984 as well as budget and program data for fiscal year 1986, is contained in the Foundation's Congressional presentation document submitted to the Committee on February 8.

In accordance with the President's budget recommendation, the Inter-American Foundation is planning a program based on a budget authority of $8,699,000 and 67 full-time equivalency (FTE's) in personnel.

The Foundation hopes to offset this lower level of appropriated funds through increased use of the Social Progress Trust Fund (SPTF) administered by the Inter-American Development Bank. The Fund was created in 1961 as a means for those countries receiving United States assistance through the Alliance for

Progress to repay in local currency their outstanding loan obligations.

A 1973 amendment to the Foreign Assistance Act (22 U.S.C. sec. 2151) provided the Foundation with priority access to the Fund and stipulated that the Foundation was to use its portion of the Fund in accordance with its mandate. House Report 93-388 of the Committee on Foreign Affairs, which accompanied the amendment, made clear the Committee's intent to increase substantially the use of the Social Progress Trust Fund by the Foundation for social development purposes. Fund transfers from the Bank to the Foundation have been carried out pursuant to a series of three-year agreements. The current three-year agreement, which has provided the Foundation with $16 million annually, expires on December 31, 1985.

In previous years, the Foundation has not been able to obligate the entire $16 million allocated to it annually by the Bank because in certain countries the amounts available were in excess of the Foundation's ability to use them. However, based on preliminary repayment data provided to the Foundation by the Bank, I expect the next three-year agreement to reflect more accurately the Foundation's capacity to take advantage of the Fund resources made available to it. This will be due primarily to the Foundation's plan to spend a large amount of Social Progress Trust Funds in Brazil and Argentina and to use these funds to cover costs of consultants, technical assistance, and other expenses directly related to the conduct of Foundation programs in those countries.

Assuming that the Foundation is able to make more extensive use of Social Progress Trust Funds, the total FY 1986 budget projects approximately $21.4 million being used for program purposes, compared to $19.2 million in FY 1984 and $24.3 million projected for FY 1985.

For FY 1986 it is projected that grant funds, both appropriated and SPTF, will be allocated as follows:

About $4.0 million will be allocated for Brazil, where the Foundation reinitiated activities in 1983 (after a six-year suspension) and has since been gradually expanding its program as staff resources have permitted. In view of Brazil's size, its large areas of poverty, the availability of SPTF funds (up to $6.0 million annually), and the number of non-governmental development organizations there, a large program, by Foundation standards, is being planned.

$1.5 to $2.0 million will be allocated in each of the larger countries of Argentina, Colombia, and Peru, where the Foundation historically has had active, major programs.

Between $800,000 and $1.4 million will be allocated for each of the following countries: Bolivia, Ecuador, Mexico, Costa Rica, and Guatemala.

$800,000 or less will be allocated for programs in the Dominican Republic, the Commonwealth Caribbean, Haiti, Jamaica, Panama, Chile, Paraguay, Uruguay, Honduras, Nicaragua, and El Salvador.

During FY 1986, the Foundation also plans to undertake several improvements in operations. Among these are:

1. Increased attention by program staff to maintaining substantive relations with private and public agencies in each of the Foundation's host countries, including U.S. embassies and other U.S. agencies.

2. Production of country priority papers for each country for planning purposes.
3. Increased monitoring of active Foundation-supported projects.
4. Where funds are available, increased attention to grantees' needs for technical assistance in bookkeeping, management, and other areas.
5. Increased emphasis on funding smaller base-group organizations.

Summary

I thank the Members of this distinguished Committee for supporting the Inter-American Foundation over the past 14 years and for asking me to appear before the Committee today to talk about the Foundation's activities in Latin America and the Caribbean.

The Congress has entrusted the Foundation with an important mission and every employee of the Foundation must act as a steward of the resources provided to it by the American taxpayers. I will do my very best to ensure that this important principle continues to be an integral part of the creative and challenging grant-making that has become the Foundation's unique signature.

I am fond of telling the Foundation's grantees that our assistance is an expression of support by the American people. I believe in that statement, and I will do all I can to make the Foundation worthy of your continued support.

Mr. Chairman, I would be happy to respond to your questions and those of the other distinguished Members of this Committee.

IAF PROGRAMS

Ms. SZEKELY. Thank you.

This is my first appearance before a committee of Congress, and I am delighted to have this opportunity to discuss the Foundation and offer you my interpretation of our mission. The fiscal year 1986 request will enable the Foundation to carry out our work in Latin America and the Caribbean and to reaffirm our faith and support for programs designed by the poor to improve their lives and their communities.

The Foundation has been able to function so well largely because Congress made it an autonomous agency that strives to be apolitical and nonpartisan in its development efforts. The Foundation will continue to make its grants in accordance with its congressional charter.

In this context, my statement to the members of this distinguished committee is a two-fold pledge: First, to carry on the Foundation's tradition of support for grassroots development and, second, to continue sharing the lessons learned from the Foundation's experience with similar but much larger Government and non-Government agencies, as well as the greater development community.

When the Inter-American Foundation was created in 1969 by the Congress, it was recognized that traditional development assistance programs were not reaching the great majority of poor people in Latin America and the Caribbean.

Therefore, the Foundation was mandated to support, on a people-to-people basis, the self-help development efforts of the poor in Latin America and the Caribbean. Unlike larger, bilateral foreign aid programs, the Foundation was expected to work through private channels to support local institutions that promote broader community participation in development. In this work, the Foundation was to place primary emphasis on improving the daily lives of the poor.

Over the past 14 years, the Inter-American Foundation has made about 1,800 grants worth $190 million in 35 nations throughout Latin America and the Caribbean. Many grants are made to grassroots organizations such as agricultural cooperatives, community associations, and small urban enterprises. Grants are also made to larger organizations that work with local groups and provide them credit, technical assistance, training, and marketing services. More than half of all Foundation grants are for less than $50,000 and under my grant management plan we expect that the number of grants in this category will increase substantially.

During my first 6 months as president of the Foundation, I have visited over 40 Foundation-supported projects in the Dominican Republic, Mexico, Costa Rica, Argentina, Paraguay, and Colombia. In each of these six countries, in the company of the Foundation's representatives, I have looked for tangible gains by the people who have received Foundation grants. Based on my visits, I believe the Foundation has succeeded in its basic mission—enabling poor people to carry out and manage, in many instances for the first time, activities which improved their social and economic situation and which contributed to their self-sufficiency. I cite a number of examples in my prepared testimony and will mention one project now.

I have a very special interest in the Foundation's programs in Mexico. First, the Inter-American Foundation is the only U.S. development agency currently working in that country. Second, I have owned and managed a Baja California business for 45 years and have lived in some of Mexico's poorer communities. In 1961, I invited a delegation of the Board of Directors of Save the Children Federation to several of these communities and urged the Board to establish a program in that country. The Federation's subsequent decision to do so marked its first such effort in Latin America.

Today I am the national sponsor for the Save the Children Federation in Mexico.

SIN FRONTERAS COOPERATIVE

This past February, I visited the communities in which the Cooperativa Sin Fronteras (Without Borders Cooperative) is working. The cooperative runs community development projects in Queretaro, a rural area inhabited by many migrant farmworkers who travel to the United States 6 months of the year. Recently, the Cooperative built two consumer stores and a secondary school.

In 1982, the Inter-American Foundation provided $20,000 to the cooperative which it matched with its own funds and in-kind donations worth $65,000, to construct a system of gravity-water cisterns and irrigation ditches, a chicken farm, pig pen, and consumer store. I was very impressed with the ambition of its members—for all of the project activities were based on their hard labor.

The Foundation's support has helped improve the living conditions of many families and has created new sources of income and employment in their own communities. Since 1982, only 2 of approximately 60 workers involved in this Foundation-supported project have traveled to the United States as undocumented aliens. Prior to 1982, almost all of these workers had made the annual trek north so that they could support their families in Mexico.

FISCAL YEAR 1986 BUDGET REQUEST

In accordance with the President's budget recommendation, the Inter-American Foundation is planning a program based on a budget authority of $8,699,000 and 67 full-time equivalency in personnel.

The Foundation hopes to offset this lower level of appropriated funds through increased use of the Social Progress Trust Fund [SPTF] administered by the Inter-American Development Bank.

A complete description of the IAF fiscal year 1986 program based on the President's budget request has already been submitted to the subcommittee.

In summary, I thank the members of this distinguished committee for supporting the Inter-American Foundation over the past 14 years and for asking me to appear before the committee today to talk about the Foundation's activities in Latin America and the Caribbean.

The Congress has entrusted the Foundation with an important mission and every employee of the Foundation must act as a steward of the resources provided to it by the American taxpayer. I will do my very best to ensure that this important principle continues to be an integral part of the creative and challenging grant-making that has become the Foundation's unique signature. In this regard, the Inter-American Foundation is the only U.S. development assistance agency working in eight countries of Latin Amerca where about three-fourths of the region's population resides. With your permission, I would like to include as part of my testimony further documentation on this point.

I am fond of telling the Foundation's grantees that our assistance is an expression of support by the American people. I believe in that statement, and I will do all I can to make the Foundation worthy of your continued support.

Mr. Chairman, I would be happy to respond to your questions and those of the other distinguished members of this committee.

Senator KASTEN. Thank you.

First of all, without objection, this chart will be made a part of your testimony.

[The material follows:]

March 15, 1985

MEMORANDUM

TO: Steve Vetter, Program Director

FROM: Julie Sutphen, Representative, Jamaica/Eastern Caribbean

SUBJECT: IAF Support for Grenada

For your background information, we have supported the following activities which have components for assistance to Grenadians.

1. CA-077, SERVOL. Has provided training to five young Grenadians who will return to their country to initiate appropriate development projects. Training includes vocational skills, project design and management, and proposal writing. SERVOL staff will travel to Grenada to monitor and provide technical assistance to these new, young development leaders as they initiate their projects.

CA-078, Caribbean Conservation Association. CCA will extend to Grenada a program, financed by the Foundation to provide technical assistance to artisanal fishermen in the Eastern Caribbean.

I have visited Grenada twice in the past 10 months, holding discussions with USAID, the Embassy, and the Peace Corps as well as the University of the West Indies Extra Mural Department, the Ministry of Agriculture, the Archbishop of Grenada and several base-group organizations. I expect two proposals, one from a small community skills-training organization and another from UWI for a women's leadership training program. It is still taking time for base groups to form and become active, but we are making some progress through grants to regional organizations which should result in solid local activities in the future.

IAF in Eight Countries

The Inter-American Foundation is alone among U.S. development agencies working in eight countries in Latin America and the Caribbean. The figures below include the extent of the Foundation's program in these countries.

	Population* (millions)	Land Area (thousands of square miles)	IAF Grants** (millions)
Brazil	120	3,286	$ 9.2
Mexico	71	762	14.2
Argentina	28	1,072	8.1
Colombia	26	455	18.1
Venezuela	16	352	1.0
Chile	11	286	28.4
Nicaragua	3	57	5.9
Uruguay	3	69	9.1
TOTALS	278	6,339	$94.0
Totals for all of Latin America & Caribbean	360	7,000	

Therefore, the eight countries listed above have:

77 percent of the population of Latin America and the Caribbean, and

90 percent of the land area.

* 1981 statistics of the World Bank

** Cumulative funding 1971 - 1984

CONGRESSIONAL SUPPORT OF IAF

Senator **KASTEN**. You took over the Inter-American Foundation at a time when there was a lot of controversy, a lot of turmoil. This subcommittee has been very supportive, as I am sure you know, of the Inter-American Foundation over the years. We were told that during some of that turmoil and controversy, there were a number of people on the IAF staff that were demoralized, and that there may have been some program deficiencies as a result of some of the problems during that transition.

Is that situation behind you now, and can we go forward with basically a clean slate, with a positive staff working for you? How would you characterize the situation in your Foundation?

Ms. **SZEKELY**. I know a lot about management and I think you will find we are one of the best managed agencies of the U.S. Government. The staff have been very supportive of me since I became president. For the first 6 months of fiscal year 1985, the Foundation is $1 million ahead in obligations compared to 1 year ago. The staff are not demoralized and are being very productive considering that we have reorganized internally. It is going very well. I couldn't be more pleased.

IAF FISCAL 1986 BUDGET REQUEST

Senator **KASTEN**. Good. You are an independent government agency, even though your budget has to go through the regular process. I want to suggest to you the same thing I suggested to Loret earlier, their budget is roughly staying the same or going down. You have a significant decrease in your request from $11.9 to $8.6 million. Where did you start off with OMB? Did you start off asking for last year's level and get cut back? It seems to me with all the things you are doing, particularly your private sector efforts, I am interested that we are ending up with a reduction in 1986 over 1985 for this program.

Ms. **SZEKELY**. I had requested 12 more people and more money because I am so enthused about what we are doing. I have visited Foundation projects in six countries, and I know how well we are doing, but we will abide by the administration's decision and will continue our work. However, since our operating overhead is about $5 million, the tremendous cut in appropriated funds leaves us about $3 million for all the countries. Where SPTF funds are in short supply, this means major cuts in our program in Mexico and minor cuts in a number of our other programs, which is a pity, but we will live within the constraints and hope to do such a good job that things change.

[The information follows:]

SUPPLEMENTAL RESPONSE

Senator Kasten asked whether the Foundation's budget request to Congress for fiscal year 1986 is the same amount as had been requested of the Office of Management and Budget. My oral response indicates that while the Foundation would be able to make effective use of additional funds if available, the current budget request is adequate. Under the administration's request, the Foundation's program for fiscal year 1986 ($27.1 million) will be greater than the agency's fiscal year 1984 level ($23.3 million) but slightly less than the estimated fiscal year 1985 level ($29.6 million).

My written testimony more fully reflects the basis for the Foundation's fiscal year 1986 request. At page 17, I note that the Foundation plans to offset the lower level of appropriated funds requested for fiscal year 1986 through increased use of the Social Progress Trust Fund administered by the Inter-American Development Bank. The Foundation has had access to the fund since 1973 pursuant to a series of 3-year agreements with the bank, and currently about 50 percent of Foundation grants are supported by the Social Progress Trust Fund. The Foundation is negotiating a new 3-year agreement with the bank that will take effect on January 1, 1986. I have instructed the Foundation's negotiators to seek greater Foundation access to the fund in the next agreement.

SUPPORT OF COMMUNIST GROUPS IN CENTRAL AMERICA

Senator KASTEN. I hope you are right.

Over the last couple of years, certain programs you have been working with and certain efforts that you have been making have been characterized by some people as supporting left-leaning organizations within the countries; in some cases Marxist organizations within some of these Central American countries. What have you done to make sure U.S. funds do not go to support such groups?

Ms. SZEKELY. Actually, if you consider that the Foundation has made 1,800 grants, those particular charges apply to two. We are being more careful. We are improving grant management by using in-country technicians to help us oversee our portfolio grants, and I think that this particular problem will not come up again.

As far as left-leaning institutions, the poor are more concerned about their poverty than they are about politics, and I have found very little political discussion of any kind. They are concerned about feeding their children and educating them and having a roof over their heads.

AFRICAN DEVELOPMENT FOUNDATION

Senator KASTEN. Later today Mr. Robinson, Executive Director of the African Development Foundation, is going to testify before us. The African Development Foundation is trying to model itself after the success of the IAF. Has the African Development Foundation sought your assistance and guidance, and are you able to make sure they don't repeat the mistakes you have made or at least can learn from the good things you are doing?

Ms. SZEKELY. I have met with Mr. Robinson twice. Various members of his staff are going to spend some time at our Foundation, working with the Foundation staff. Some of the ADF staff go to the field with our staff to get a feeling for what we have been able to discover through trial and error. So hopefully the ADF won't have to go through all of that travail.

We are also working—and I hope to have something definite next year—on a funding manual, how to go about finding the people who need help and how to respond to their requests and allow them to develop their ideas and make them a reality. We are excited about the potential of this manual and have already collected quite a bit of material which would help Mr. Robinson and many other people in development.

Senator KASTEN. How many people do you have working for you?

Ms. SZEKELY. Sixty-seven.

Senator KASTEN. In different parts of the justification it says 68, 69, and 67, but you have 67.

Ms. SZEKELY. Yes; can Bob answer that?

Mr. MASHEK. The difference may be 67 is full-time equivalency; 67 times 2,500 hours. That is counting hours rather than people. Actually, there have been 69 employees taking into account turnover and lapses between the departure of one and arrival of the replacement.

Senator KASTEN. You are not necessarily consistent part by part by part. Sixty-seven people. Are you active in Grenada now?

GRENADA

Ms. SZEKELY. Staff have made two trips to Grenada. I have discussed Grenada and would like to be able to work there but we have not yet established a program in that country.

Senator KASTEN. There is not a program there now?

Ms. SZEKELY. Not at this stage. It takes a while for people to develop the confidence to apply for a grant. We don't just hand out the money. That is what makes the Inter-American Foundation so special. The idea is developed from within, by the people themselves and that is the reason why we have been so well received.

Mr. MASHEK. We have supported a couple of projects in the Caribbean that are based elsewhere, in Trinidad and Barbados that are working with people in Grenada as well.

Ms. SZEKELY. May I submit this further documentation on Grenada or would you like to just read it informally?

Senator KASTEN. We will do whatever is most efficient. Nevertheless, the answer to my question is the same, you have been there, and you are interested in Grenada specific programs.

EL SALVADOR, GUATEMALA, HONDURAS

Last year, we questioned in the committee the relatively small amounts of money spent on projects in El Salvador, as well as Guatemala and Honduras. In response to those questions we were told that you are constantly reviewing these countries for projects and feasibility but also mentioned because of violence and other kinds of questions and problems that things may or may not change, depending on the safety of staff to travel, et cetera.

What is the current situation right now from your point of view in terms of establishing projects or keeping ongoing projects going and maybe increasing in El Salvador, Guatemala, and Honduras?

Ms. SZEKELY. Two staff members have visited El Salvador recently and have received a number of proposals under consideration. We have a couple of small grants ongoing in the country. I had scheduled a trip to El Salvador which I had to cancel because of an emergency. I expect that the Foundation will increase its funding in El Salvador shortly. As far as Nicaragua, we have again had some trips and——

Senator KASTEN. Guatemala.

Ms. SZEKELY. Guatemala, I'm sorry. We have several projects in Guatemala but I am not up to date.

Mr. MASHEK. We are much more active in Guatemala. Last year the Foundation had considerable staff turnover. We have increased the staff and are allocating more staff to those countries in Central America. We have some in-country assistance already arranged there, and we expect to be quite active in Guatemala and Honduras as well.

Ms. SZEKELY. We had people from those two countries at the Foundation last week and we are working closely with them.

Senator KASTEN. And you are satisfied they are making progress in terms of the lessened levels of violence, safety, et cetera?

Ms. SZEKELY. They felt comfortable about that.

Senator KASTEN. They are making progress.

There are other questions which I will submit for the record. We hope you can get back to us with this.

Ms. SZEKELY. I will be glad to.

BOARD OF DIRECTORS CONFIRMATION

Senator KASTEN. There is a director who is now pending confirmation by the Senate. I believe one of your directors.

Ms. SZEKELY. Yes.

Senator KASTEN. I think it would be important for her to know that when there is a request from a Senator, particularly a Senator who served on the Appropriations Committee—not me but one of my colleagues—she evidently said she wasn't interested in coming to talk to him or didn't need to. She hadn't been confirmed anyway and wanted to wait until she was confirmed. It would be helpful if you explain to her if she would respond to the request to meet with someone who is interested in her and the projects of your Foundation.

Ms. SZEKELY. I will be glad to.

Senator KASTEN. I think we can undo the problems that are there right now, but it would be much easier if they hadn't occurred in the first place. She must be responsive as you must be responsive for legitimate requests for meeting with Members of the Senate. You might convey that back to them.

We look forward to working with you. Thank you very much for your testimony.

Ms. SZEKELY. Thank you.

SUBMITTED QUESTIONS

Senator KASTEN. We have submitted questions from members of the committee which will be inserted in the record at this point.

[The questions and answers follow:]

(The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:)

SENATOR KASTEN
QUESTIONS FOR DEBORAH SZEKELY
FOR MARCH 19, 1985 HEARING RECORD

1) Senator Kasten: You have quite extensive information in your budget submission regarding projects initiated in FY 1984.

Can you give us an idea of projects already funded in FY 1985, and the types of projects you are looking at and in what countries, for the remainder of FY 1985?

Mrs. Szekely: In an overall effort to have the Inter-American Foundation channel funding directly to the poor, I have placed renewed emphasis this fiscal year on increasing the percentage of grants to grassroots organizations that have little or no access to financial assistance.

During the period October 1, 1984, through March 31, 1985, the Inter-American Foundation funded new projects totalling about $6 million in nearly all of the 30 countries in which we work.

FY 1985 grants approved to date cover the following principal program areas:

1. Approximately one-third for agriculture and rural development activities, especially to farmer cooperatives,
2. One-third for education and training,
3. The remainder for urban small business development, community service programs, and research and learning activities.

We expect to fund projects during FY 1985 in the program areas listed above and in support of literacy programs and urban and rural micro-enterprise development.

Regarding the countries in which grants will be made, the Foundation has a commitment to maintain a continued presence in all the Latin American and Caribbean countries in which it has funded projects previously.

2) Senator Kasten: Mrs. Szekely, you say in your budget submission that the current Social Progress Trust Fund (SPTF) agreement will terminate December 31, 1985, but that you assume a similar agreement will be concluded for 1986 and succeeding years. Are negotiations on-going for this agreement? Do you anticipate any difficulties in getting an agreement?

Mrs. Szekely: We have held preliminary discussions with officials from the Inter-American Development Bank and the Agency for International Development and are in the process of gathering information from our staff on possible SPTF usage. We have also asked the Inter-American Development Bank to provide us with information on the amounts that will be collected over the next three years. We do not anticipate any difficulties in getting an agreement. However, we may still have problems with the distribution of funds.

3) Senator Kasten: You go on to say that you anticipate a significantly different distribution of resources among countries than in the past. Why is that?

Mrs. Szekely: We received some preliminary figures from the Inter-American Development Bank which showed that planned collections in Bolivia, Colombia, Costa Rica, the Dominican Republic, Haiti, Mexico, Paraguay, Peru, and Uruguay will be significantly lower than the amounts collected in prior years. Although we will be receiving less money in these countries, we will be requesting larger amounts in Argentina where the funds are more plentiful. In addition, we have reestablished our program in Brazil and feel that larger amounts can be absorbed there.

Overall, our total Social Progress Trust Fund annual budget for FY 1986 is estimated to be $16 million despite changes in country distribution. The Foundation will make an effort to increase its program activities in those countries where Social Progress Trust Fund resources are available.

SENATOR HATFIELD
QUESTIONS FOR DEBORAH SZEKELY
FOR MARCH 19, 1985 HEARING RECORD

1) Senator Hatfield: The Foundation's Budget for FY 1986 has been cut almost 30% and I understand that this reduction will sharply affect grant-making in the Caribbean and Mexico. What kinds of projects in the Caribbean and Mexico would you support if the Congress were to freeze your FY 1986 budget at the FY 1985 appropriation of $11.992 million?

Mrs. Szekely: Additional funds for Mexico and the Caribbean would be devoted to creating new income-generating opportunities for poor people so that they may improve their own lives and their communities. New projects would emphasize productive activities in agriculture and micro-business.

2) Senator Hatfield: Are the Foundation projects helping the poor in Latin America to become self-sufficient?

Mrs. Szekely: Yes. During FY 1984, nearly 50% of the IAF's grants supported productive activities by poor people in the fields of agriculture, rural development and urban enterprises. These funds assisted small-scale farmers as well as rural and urban micro-businessmen to increase the self-sufficiency of their own businesses and families. In addition, training programs for these people have helped them to improve the bookkeeping, administration, and management of their income-producing activities.

3) Senator Hatfield: If the IAF FY 1986 Congressional appropriation remains at $8.699 million, how will this affect IAF operations?

Mrs. Szekely: The Foundation supports the President's recommendation and plans to offset this reduced appropriation through greater use of the Social Progress Trust Fund, administered by the Inter-American Development Bank. Fund resources are available to the Foundation for use in those Latin American and Caribbean countries which are repaying loans made through the Alliance for Progress. The Foundation plans to increase its grant-making in countries where Fund resources are available in large amounts, including Argentina, Brazil Uruguay and Venezuela. The Foundation has had access to the Fund since 1973 pursuant to a series of three-year agreements with the Bank, and currently about 50% of Foundation grants are supported by the Social Progress Trust Fund. The Foundation is negotiating a new three-year agreement with the Bank that will take effect on January 1, 1986. Because of the Foundation's lower FY 1986 request for appropriated funds, I have instructed the Foundation's negotiators to seek greater Foundation access to the Fund in the next three-year agreement.

SENATOR INOUYE
QUESTIONS FOR DEBORAH SZEKELY
FOR MARCH 19, 1985 HEARING RECORD

1) Senator Inouye: I have read your prepared statement with considerable interest. I wish to commend you for your direct and candid presentation. In particular, I was pleased that you chose this occasion to reaffirm the Foundation's support for grassroots development through funding of self-help efforts in Latin America and the Caribbean.

Do you agree that it is important for the poor to identify and design solutions to their own problems?

Mrs. Szekely: Yes. This is one of the strongest tenets of the Inter-American Foundation. Given the magnitude of the problems in Latin America and the Caribbean, no aid program can hope to resolve them. Long-term solutions must depend upon people's ability to take initiatives and mobilize resources, and on a climate in which the public and private sectors respond positively to those initiatives.

Under the Foundation's philosophy, the opportunity for grassroots groups to plan projects, make decisions, and gain administrative experience is as important as the more tangible benefits of the project itself. A goal of funding is to help build capabilities and confidence so that groups are able to continue on their own, without depending indefinitely on outside assistance.

In addition, the impact of development projects depends in large part on acceptance by the beneficiaries. Experience proves over and over that people are much more willing to put energy and creativity into a project when it is their idea, and when they have genuine responsibility for carrying it out.

2) Senator Inouye: You seem to recognize that the Congress, in establishing the Foundation, sought to avoid the creation of a mini-agency for international development. I fully support the people-to-people orientation of the Foundation.

Would you say that this orientation strengthens the Foundation's contribution to democracy in Latin America and the Caribbean?

Mrs. Szekely: It is precisely the people-to-people orientation that gives the Foundation its ability to bolster democracy in Latin America.

In many countries there is a strong tradition of grassroots response to common problems. The Foundation's strength is not only in reaching grassroots groups directly, but in the focus of its funding.

In making a grant, the Foundation not only looks for the end product--better crops or a water system or a health clinic, essential as those are. Importantly, it also assesses the new skills and capabilities that the beneficiaries will acquire as they design and implement their projects. The Foundation seeks to support those projects that can continue beyond the grant period - projects that have a life of their own. Foundation staff have seen, in this regard, that community involvement in projects can provide lasting benefits by giving people the opportunity to develop talents, learn skills, exercise leadership, participate in decision-making processes, and discover ways to tap resources in their own societies.

In sum, we believe that democracy is best attained by encouraging people to practice it at all levels. Our experience over the past 14 years clearly shows that the value of Foundation projects is not just material improvement, but the opportunity for people to make their own decisions and become fuller participants in national life.

3) Senator Inouye: Would you agree that the greatest value of the Foundation is found in its ability to support projects at the grassroots level which, because they are small

and non-governmental, would be unlikely candidates for AID funding?

Mrs. Szekely: I believe that the Foundation fills a special niche and a very important need in reaching groups that are too small, or too far removed from national priorities, to qualify for funding from AID or other donors who work primarily through government channels.

Often, these small, homespun groups offer fresh and innovative solutions to old problems because they are so closely involved with and attuned to the beneficiaries, and are thus able to generate enthusiasm and mobilize the energies of people to carry out projects. Experience shows that when large, highly centralized programs fail in their objectives it is often because of the "people factor." Technology and infrastructure produce results only to the extent that people adopt them and put them to use once the project is completed.

The hallmark of the Foundation is to begin with the people themselves, to support projects that they propose, and to which they are willing to commit their own energy and meager resources. In a broader sense, then, the Foundation believes in programming with the people, in response to their needs, and in consonance with their sense of values and traditions, rather than imposing our programming perceptions on them.

It is important to remember though, that the Foundation was created to do more than make grants. It was also intended to work at the cutting edge of development, as an important vehicle for testing and comparing different models of grassroots development. Since its inception 14 years ago, the Foundation has sought to share its program experience with other, much larger government and non-government agencies as well as the greater development community. Today, the Foundation remains dedicated to this important principle: to learn together how we can help the poor of Latin America and the Caribbean to better their lives and build a future with promise.

4) Senator Inouye: You have noted that the Foundation's Board selects the President of the Foundation.

A) Do you serve at the pleasure of the Board?

Mrs. Szekely: Pursuant to the Foundation's enabling legislation, the President is "appointed by the Board of Directors on such terms as the Board may determine". Thus, I serve at the pleasure of the Board.

B) Senator Inouye: What is your term of office?

Mrs. Szekely: The President has no specified term of office.

C) Senator Inouye: Has the Board given you the operational freedom and authority you need to keep the Foundation on track?

Mrs. Szekely: I believe the Board has given me the operational freedom and authority to manage properly the Foundation and its program activities. I retain the same delegation of authority which previous Foundation Presidents have been given by the Board.

D) Senator Inouye: Does the Board have a full complement?

Mrs. Szekely: The Board does have a full complement of seven members. I expect that Lynda Barness of Pennsylvania, who was nominated by President Reagan, will soon be confirmed by the Senate as a member of the Board, appointed from private life. Ms. Barness will replace Doris Holleb who has served on the Foundation's Board of Directors since October, 1980.

I understand that another Foundation Board member, Ambassador Middendorf, the United States Representative to the Organization of American States, will be leaving his post there within a few months. In this regard, the Foundation's legislative mandate requires public sector Board members to be appointed from among officers or employees of agencies of the United States Government concerned with inter-American affairs.

5) Senator Inouye: I am particularly interested in learning if the present Board has followed the established practice of its predecessors and has acted in a fashion which ensures that the Foundation adheres to its Congressional mandate.

A) Has the Board issued any policy or administrative guidelines?

Mrs. Szekely: The Board has not issued any policy or administrative guidelines.

B) Senator Inouye: Has the Board issued any statements or taken any actions which would indicate that it has sought to reinterpret its Congressional mandate?

Mrs. Szekely: The Board has not issued any statements or taken any actions which would indicate that it has sought to reinterpret its Congressional mandate.

C) Senator Inouye: Has the Board made any changes in the grant-making criteria established by previous Boards?

Mrs. Szekely: The Board has not made any changes in the grant-making criteria established by previous Boards.

6) Senator Inouye: In your listing of grant-making criteria, I find one which could be troublesome. I refer to the condition that an institution must be an "established organization with competence, committed leadership, a good record of performance, and support in their local communities."

Would the Foundation approve funding for a new, untried organization, if other condions were met? If not, how does the Foundation reward initiative on the part of the poor in establishing new organizations?

Mrs. Szekely: Your question focuses on an issue which we are faced with regularly when considering an organization for funding: How to reconcile our Congressional mandate to be an experimental developmental entity, willing to take risks, with our equally important mandate to invest the U.S. taxpayers' money in development activities in as responsible a way as possible.

We have established a list of criteria which serve as guidelines to help us fulfill our desire to be "responsibly risky" in our funding efforts. The guidelines allow us to be flexible and responsive to the many variables and conditions that we consider for each project proposed, while helping us to remember that we are making decisions about the use of money entrusted to us by the Congress.

My view is that about 15% of all Foundation grants should be targeted for high risk, experimental projects that are on the cutting edge of development activities in Latin America and the Caribbean. Thus, the Foundation could approve, and has on many occasions, grants for organizations that don't have lengthy experience, if there are other project characteristics or circumstances that compensate for organizational limitations. We always look carefully at the entire project proposal and the persons and organizations that present them to us. Rarely is weakness in one criteria alone seen as justification for rejecting a proposal.

7) Senator Inouye: In your report on field visits, you note that Peace Corps Volunteers have provided technical assistance to at least one project in the Dominican Republic.

How extensive is this practice? Is there a formal relationship between the Foundation and the Peace Corps?

Mrs. Szekely: The Foundation's relationship in the field with the Peace Corps does not alter our longstanding practice of responding to proposals submitted by grassroots organizations.

Fortunately, both the Peace Corps and the Inter-American Foundation coincide in their development focus on the self-help efforts of poor people in Latin America and the Caribbean. Because of these complementary goals, and because both entities provide assistance, through volunteers or grants, at the grassroots level, a spontaneous working relationship between the Peace Corps and the Inter-American Foundation has grown steadily over the years.

That relationship was formalized in November, 1984, when Peace Corps Director Loret Ruppe and I signed a "Memorandum of Understanding," a copy of which is provided for your information (Attachment A). This agreement reinforces the common interests of our two development organizations to "...pursue joint efforts to plan, coordinate, promote, analyze and implement programs and projects that enable the less fortunate peoples of Latin America and the Caribbean to improve their standard of living and quality of life through democratic processes and, thus, contribute to the development of their nations."

Presently, Foundation personnel are in contact with Peace Corps staff and volunteers in all countries in which the Peace Corps is operational in this Hemisphere: Guatemala, Honduras, Belize, Costa Rica, Jamaica, Eastern Caribbean, Ecuador, Paraguay and the Dominican Republic.

8) Senator Inouye: Please explain why you believe the Foundation may be able to make better and more extensive use of Social Progress Trust Fund monies in fiscal year 1986. Is the Foundation able to reprogram these funds into projects in countries other than those from which the local currencies originated?

Mrs. Szekely: Over the past few years, the Foundation has not had a program in Brazil, which is a country where the Social Progress Trust Fund is plentiful. We feel this is one place where we will be able to make better use of these funds. Additionally, in the past, we limited our use of Social Progress Trust Fund monies for grants. We are now using these funds to provide technical assistance and training to our grantees and will be exploring the legality of using these funds for overhead costs directly related to SPTF programs in the various countries.

The Foundation can use these funds for any project that fits the Social Progress Trust Fund criteria. However, these funds are repaid in local currency and must be used for goods and services in the country making the repayments.

9) Senator Inouye: Please provide an organization chart for the Foundation.

How has the Foundation been reorganized under your direction; why was this reorganization undertaken?

Mrs. Szekely: As you requested, attached is a current organization chart for the Foundation (Attachment B).

Reorganization of the Foundation was implemented principally to provide us with a flexible, efficient management structure that facilitates integration of our funding, learning, and disseminating activities. In this process, all staff have been retained and some assigned new responsibilities.

More specifically, we have reorganized the geographic offices and created a new Office of Programs which is responsible for managing the Foundation's grant making and coordinating the staff's efforts to learn from project experiences. Thus, we can fulfill our legislative mandate to share information about innovative development programs with other institutions, public and private, that are groping with the issues of poverty inside and outside Latin America.

Further, we have increased the number of staff actively involved with field work by combining some supervisory functions with field activities. By bringing the supervisory span of control ratio to a more rational level, we expect to increase the efficiency of operations, accelerate response time, and get the grant money directly to those who need it most with as little red tape as possible.

SENATOR LEAHY
QUESTIONS FOR DEBORAH SZEKELY
FOR MARCH 19, 1985 HEARING RECORD

1) Senator Leahy: You have requested $8.69 million for FY 1986. That is $3.3 million less than in FY 1985.

According to information from your office, "Inter-American Foundation is alone among U.S. development agencies working in eight countries in Latin America and the Caribbean". Those eight countries contain 77 percent of the population of those regions.

Why have you reduced your budget request from last year when, according to the Kissinger Commission, social and economic development needs in Latin America are increasing each year?

Mrs. Szekely: The FY 1986 budget request reflects the Foundation's plans to offset the proposed reduction of $3.3 million in appropriated funds by making greater use of the Social Progress Trust Fund administered by the Inter-American Development Bank. The Foundation has had access to the Fund since 1973 pursuant to a series of three-year agreements with the Bank, and currently about 50% of Foundation grants are supported by the Social Progress Trust Fund. The Foundation is negotiating a new three-year agreement with the Bank that will take effect on January 1, 1986. I have instructed the Foundation's negotiators to seek greater Foundation access to the Fund in the next three-year agreement.

2) Senator Leahy: Why will you spend $400,000 more for "program services" in FY 86 than in FY 85, at the same time that development programs are being cut back?

Mrs. Szekely: We have always kept our "program support services" low. However, the $400,000 increase in our budget represents only a 7.6% increase over the FY 1985 budget. This amount is required to allow for the increased use of consultants to assist in the monitoring of projects and the creation and modification of our computer programs, to fund the normal promotions and within-grade increase of our staff, and to allow increases in travel expenses. Although our program appropriated funds are being reduced, we still have many active grants that have to be monitored, and we still have SPTF money available for our use.

ATTACHMENT A

MEMORANDUM OF UNDERSTANDING

between

THE PEACE CORPS

and

THE INTER-AMERICAN FOUNDATION

WHEREAS, the Peace Corps plans to continue to fulfill its mandate "to promote world peace and friendship" by creating and implementing self-sustaining economic, social, and educational programs to upgrade the quality of life for the world's disadvantaged;

WHEREAS, the Peace Corps assigns qualified men and women volunteers to projects designed to help people help themselves, a people-to-people approach which promotes human development, self-reliance, and economic self-sufficiency in order to further the development of cooperating countries;

WHEREAS, through its emphasis on cross-cultural awareness and grass roots programs, the Peace Corps promotes mutual understanding and international cooperation;

WHEREAS, the Peace Corps plans to continue to enhance the impact of its programs in Latin America and the Carribbean through close collaboration with other development agencies and organizations, both public and private, and through them, expand the reach of the human, institutional, and financial resources available to help grassroots organizations to develop both income generating and local infrastructural activities;

WHEREAS, the Inter-American Foundation has a mandate to support the self-help efforts of poor people in Latin America and the Caribbean to achieve social and economic development objectives by cooperating with private, regional, and international organizations;

WHEREAS, the Inter-American Foundation has been active in supporting non-governmental organizations throughout the hemisphere, which have also received assistance from Peace Corps Volunteers;

WHEREAS, the Inter-American Foundation has through the years informally maintained relations with the Peace Corps in identifying grassroots programs with community resources and participation; and

WHEREAS, both organizations would find the strengthening and expansion of cooperation to be of advantage in fulfilling their mandates;

THEREFORE, be it resolved that the Peace Corps and the Inter-American Foundation agree to pursue joint efforts to plan, coordinate, promote, analyze, and implement program and projects that enable the less fortunate peoples of Latin America and the Caribbean to improve their standard of living and quality of life through democratic processes and, thus, contribute to the development of their nations.

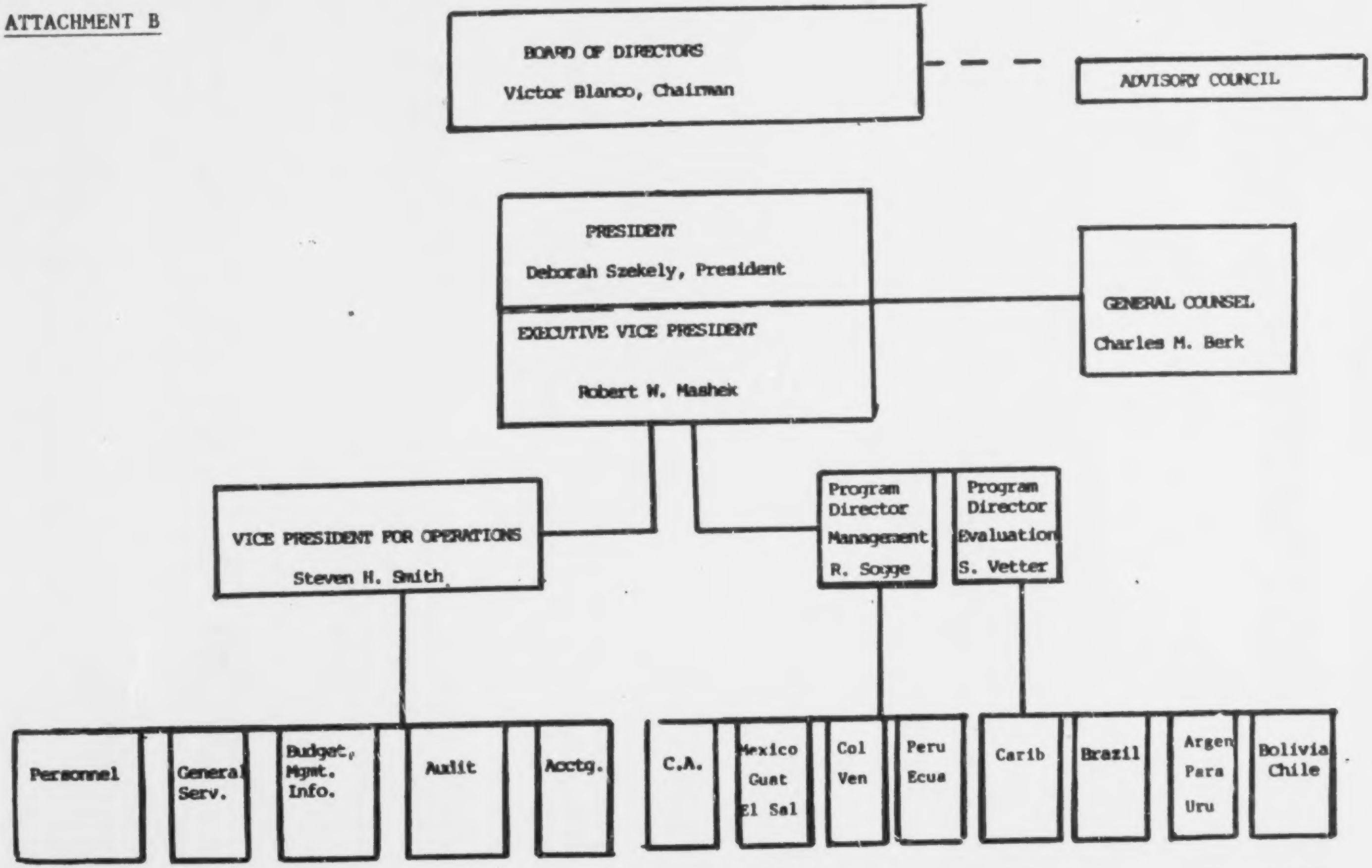
Signed this twenty-ninth day of November, 1984

Loret M. Ruppe

Loret Miller Ruppe
Director
Peace Corps

Deborah Szekely
President
Inter-American Foundation

ATTACHMENT B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Brazil
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AFRICAN DEVELOPMENT FOUNDATION

STATEMENT OF LEONARD H. ROBINSON, JR., PRESIDENT, AFRICAN DEVELOPMENT FOUNDATION

ACCOMPANIED BY
WILLIAM F. PICKARD, CHAIRMAN, BOARD OF DIRECTORS
PATSY BLACKSHEAR, CHAIRPERSON, PROGRAM COMMITTEE

Senator KASTEN. The committee will come to order.

Our final witness for this afternoon is Mr. Leonard Robinson of the African Development Foundation. This is your first appearance before this subcommittee, Leonard, and also the first appearance of the African Development Foundation as an independent agency. So we welcome you and ask you to summarize your statement with the knowledge that your entire written statement will be included in the record.

We welcome you and look forward to your testimony.

Mr. ROBINSON. Thank you very much, Senator Kasten and members of the subcommittee, I am honored to appear before you today to report on the progress of the African Development Foundation. With me are Dr. William F. Pickard, Chairman of the Board of Directors, and Dr. Patsy Blackshear, Chairperson of the Board's Program Committee, as well as several other board members.

ADF ACHIEVEMENTS

As you are well aware, Mr. Chairman, the Foundation's beginning was less than auspicious. However, ADF is encouraged by the hurdles transcended thus far and the milestones achieved, measured by the overwhelming positive reaction to ADF on the part of grassroots African organizations, as well as the prospects for the future of this institution.

The creation of the Foundation by Congress in 1980 and its subsequent activation in February 1984 was timely and appropriate. This conclusion has been underscored not only by the growing crisis in Africa but by an expanding body of development experts including Congress' own Office of Technology Assessment which strongly endorsed the grassroots approach to development in its recent report entitled "Africa Tomorrow: Issues in Technology, Agriculture, and U.S. Foreign Aid."

ADF PROGRESS

Since ADF commenced operations 1 year ago, the following progress has been made toward strengthening its capability to provide meaningful development assistance.

A core staff of 20 people, our current OMB sanctioned ceiling, has been established in both professional and support capacities. Within its professional ranks, ADF's personnel have extensive experience in Africa and in economic development, approximately 155 person-years, and are fluent in French, Spanish, Portuguese, Arabic, and a number of tribal languages.

Exploratory visits by Foundation representatives have been conducted in more than 15 countries.

Representatives of the Board have made three separate trips to Africa to meet with heads of state and other officials to explain the mission and objectives of the Foundation.

To ensure thorough review of proposals for ADF assistance and to serve as a quality control check, a project review committee was established in June 1984 to assess proposals and to recommend for approval to the Foundation's president, and the Board's program committee, those projects suitable for funding.

Key management systems and mechanisms for tracking the inflow and processing of grant and other forms of assistance are in place.

ADF grant terms and conditions have been established and are applied to all approved requests for funding assistance. Conditions include the timely submission of quarterly fiscal and progress reports, and a project monitoring schedule established by ADF representatives in conjunction with the designated local project managers.

The provision of technical assistance is also arranged for as required, and procedures have been established for each project which require an annual audit of all receipts and expenditures. These measures are designed to prevent any waste, fraud or abuse of funds, and at the same time allow ADF to ensure that technical assistance is provided at critical junctures in the life of the project.

A system of internal budgeting and management by objectives has been implemented.

Cross-servicing agreements with larger agencies with proven track records in administrative management have been implemented for processing payroll, personnel, and accounting activities.

Country selection and project criteria have been promulgated.

To date, 11 projects have been funded in six countries, including Liberia, Niger, Mali, Lesotho, Zambia, and Botswana. Total value of ADF assistance to date is $838,000.

PROJECT FUNDING

By the end of March, an additional 21 projects, totaling $1.3 million will be funded for grassroots efforts in Sierra Leone, Ghana, Togo, Benin, Guinea, Kenya, and Zimbabwe as well as in Mali and Niger.

PROJECT ASSISTANCE FROM ADF

The demand for ADF assistance has been overwhelming in our brief history. The total number of requests received for assistance to date is 328, valued at $46 million. Obviously, the demand is far in excess of ADF's available resources. As a consequence, we have, as a matter of policy and prudent management, deferred action on numerous projects for possible funding until fiscal year 1986 and beyond.

A study on the implementation of ADF's loans and loan guarantee components has been completed by senior management staff and forwarded to the president, and ADF board of directors of the Foundation. The study outlines the legal and policy considerations involved in mounting a full-scale loan and loan guarantee program, and thus sets the stage for a determination of the form ADF's efforts will take in this area.

The formulation of a 5-year plan was initiated and is now in final form. This document, scheduled for final publication and dissemination within the next month, will serve as the Foundation's operating guide for 1986 through 1990. Modifications and revisions, of course, will be incorporated as situations/experience dictate and as required.

An Advisory Council has been officially established and chartered, consisting of recognized development specialists and outstanding citizens, American and African, from the corporate, business, academic, foundation, diplomatic, relief, and religious communities. We anticipate that the Council will bring a valuable perspective to ADF operations.

Coordination activities have been initiated with domestic, international and African based private voluntary organizations [PVO's], the World Bank and regional banks, and foundations such as Ford, Carnegie, Rockefeller, and the Council on Foundations, to name a few. We have especially developed a close relationship with the Inter-American Foundation, the institution after which the ADF was principally modeled, in order to take full advantage of their 14 years of grassroots experience in the Caribbean and Latin America.

ADF COORDINATION WITH OTHER GOVERNMENT AGENCIES

Formal and information coordination has been effected with key U.S. Government entities in Washington and in each African country where ADF activities are carried out, including U.S. embassies, AID missions, and Peace Corps offices. Other relevant development agencies and United States and European PVO's have also been contacted.

Africa today, as has been the case for the past decade, is gripped by an economic crisis of catastrophic proportions. The causes of this malaise are multifaceted: Two global recessions triggered by the shock waves of steep OPEC oil price increases, inappropriate African government economic development policies—especially in agriculture—drought and associated famine, not to mention countless other variables.

The American people and Government have responded to the human suffering in Ethiopia and some 20 other countries throughout Africa in an unprecedented fashion. However, the ultimate response to solving Africa's economic disaster lies not in emergency relief measures, but in the long-term provision of relevant and sustained assistance. As noted in the OTA study, this assistance should focus on the rural and urban poor and ensure their direct participation in the design and management of development activities Africans, themselves, deem appropriate for meeting and improving their living standards and conditions.

The ADF was uniquely conceived by Congress to play a significant role in this regard. If afforded the opportunity, the African Development Foundation will undoubtedly—as the Inter-American Foundation has clearly demonstrated in Latin America—make a difference.

ADF OPERATING AUTHORITY

In this regard, an extension of ADF's operating authority until 1990 is essential and the authorization of no year appropriations would greatly facilitate the original intent and purposes of Congress in creating this Foundation.

Thank you, I will be happy to answer any questions you may have.

Senator KASTEN. I first of all thank you for your testimony and also thank you for bringing along your chairman, a fellow midwesterner. I have had the opportunity to meet with Dr. Pickard on a number of occasions. I am happy he is here supporting you.

PROBLEMS IN AFRICA

I just also say before beginning questions, I just can't emphasize enough the causes of the problems as you did in your testimony in Africa; clearly the global recessions, the drought, the other problems, but there is a whole group of countries over there that went to the Soviet Union deciding they were going to be their agriculture experts, as well as their arms suppliers. You can argue the Soviets might be able to supply arms, but basically the Soviet model is not to be followed in terms of agriculture.

As a result, we have inappropriate economic policies throughout that continent, but particularly as you mentioned, inappropriate agricultural policies, and to the degree you can, I hope you will be working toward the growth oriented free enterprise kinds of agriculture, not fostering the cheap food policies; but more importantly that we move away from the government control toward a privatization of the land and give people who are growing crops the opportunity to participate, the opportunity to own land, the opportunity to make a profit, the opportunity to pass the land on to their offspring. Only by those kinds of opportunities, in my mind, are we going to start to change this terrible cycle that has been established in Africa. Are these the kinds of directions you are beginning to take also?

Mr. ROBINSON. We are in complete agreement with your summation, Mr. Chairman. The Foundation has placed tremendous emphasis on trying to energize the private sector by working with small as well as medium sized entrepreneurs. We do feel very strongly that there is a tremendous amount of talent in Africa that has not been tapped, simply because the resources have not been available and/or because the government has not made a concerted effort to integrate private individuals in their overall development objectives.

We tend to emphasize very strongly those projects that are self-generating, self-sufficient, income-generating and projects that have a reasonable potential of success in terms of extending and continuing long after ADF assistance has been terminated or phased out.

MOZAMBIQUE

Senator KASTEN. You can just look at Mozambique which might be one of the most dramatic examples. We saw a country that was relatively self-sufficient and has really turned the wrong way in terms of an ability to provide for its own citizens, simply because of adopting economic and political positions that do not work. I am hopeful that you are going to be able to work to try to start to get the continent back on the right track.

Mr. ROBINSON. Well, I think it is significant to note that Mozambique is moving in our direction, as well as a number of other countries. I would also note what is happening in Africa today, on a positive side, that is a number of policymakers themselves realize they did adopt and implement inappropriate, negative policies 20 years ago, and they are beginning to change the situation themselves. I think that once they recognize this effort, reforms will come fairly quickly.

ADF RESPONSE TO GAO DRAFT REPORT

Senator KASTEN. Your office has provided our subcommittee with a copy of your ADF response to the GAO draft report. Some of us in reading that were concerned with the tone of your response. I will take a couple of examples. On page 16 you state, "The auditors consistently and persistently tried to extract from ADF management what our strategy would be for developing Africa was or was not going to be."

On page 23 you say, "In fact the projected figure of $96 million by fiscal year 1990 seems to have struck the auditors as outright irresponsible."

There are a couple of other places in which a quick reading of your response to the GAO report would leave the impression that you did not feel or at least your staff people did not feel that this was a fair audit.

If this is the case, we would be interested in hearing specific areas in which you think they were unfair or were biased or were not looking in the right directions. In your opinion, was ADF given a fair shake or was the tone of that report indicative of the attitude that you and some of your staff might feel about the way the audit was conducted?

Mr. ROBINSON. I do not think, Mr. Chairman, that we were trying to convey in the response to the GAO report a tone of unfairness or to reflect a feeling of unfairness on the part of the auditors. With respect to the specific questions that you raised, perhaps it should be noted that we spent, me and my senior staff, spent many, many hours caucussing with the auditors over several key points of policies, as well as program implementation.

The issue of an ADF strategy on a country specific basis was raised by the auditors on several occasions, not only during the time that they were actually physically present at the Foundation, but during the various iterations we had as they were about to prepare their draft report.

We feel very strongly in the Foundation as mandated in the Foundation's legislation that the African Development Foundation represents a real difference in terms of how foreign assistance is delivered in Africa. We believe that it would be a mistake to develop strategies or a blueprint for specific countries in terms of the types of projects the ADF should fund. And when I say types of projects, I am talking about whether the projects should be in health or in agriculture or in primary health care, or whatever the case may be. I think one of the mistakes that our foreign aid program has made in the past is that we have tended to design very specifically the activities to go along with the financial assistance and what has happened is the recipients of this aid have not felt that they had a real significant, meaningful role to play in determining how that assistance was going to benefit them.

We do have an overall strategy which serves as a framework, if you will, as to how we intend to be responsive to African aspirations and requirements, within reason. But I think the point of difference between the Foundation's management and the auditors was exactly what the strategy should be and how far the strategy should go.

With respect to the reference to a projected budget of $96 million in fiscal year 1990, our interpretation of the draft report was that it appeared the auditors focused exclusively on the $96 million figure, which in effect was speculative, although it was tied to some very serious and concrete deliberations on the part of me and my senior staff. This, as opposed to the auditors looking at the early years of the Foundation's maturation process, that is, fiscal year 1986 and fiscal year 1987.

ADF USE OF BUDGETED FUNDS

Senator KASTEN. Let me just say as a member of the Budget Committee—I am on both committees, we just finished a couple of weeks of intensive 18-hour days trying to work our way through a budget. I think for us to go from roughly $1 million right now to about a hundredfold increase in 4 years is ambitious, to say the least. I don't want to focus on that, I want to focus on what you are doing and how you are going to get from here to the end of next year and utilize the dollars and the people in the best possible way to get the most out of the money that is being allocated right now. But I think as someone who has been trying to figure out how we are going to reduce the deficit by $55 billion, that is our goal, over the next fiscal year, it is a tough, tough job. There are not a whole lot of programs that are going to be increasing 100 times.

ADVISORY COUNCIL

The act of 1980 directed the Foundation's Board of Directors to establish an Advisory Council composed of persons knowledgeable of development activities in Africa. It is my understanding the Foundation has received acceptances from several people to be on the Advisory Council as of the end of last March. You made reference to some of the kinds of people drawn from the academic community, religious community, development community, business community, et cetera. Have all of the Council slots, first of all, been filled by now; second, what kind of response have you received from prospective Council members; and, third, when will the first meeting of the Council be taking place?

Mr. ROBINSON. Mr. Chairman, the answer to your first question is that there are 25 Council member slots. Of the 26 candidates for the Advisory Council we issued invitations to, approximately 18 have accepted, which we are quite proud of, to say the least. We have yet to hear from approximately five candidates. Some of those candidates are on the west coast and they received the invitation late.

In terms of when the Foundation will have its first Advisory Council meeting, that meeting has already been held.

Senator KASTEN. When was that held?

Mr. ROBINSON. That was held yesterday.

Senator KASTEN. Yesterday?

Mr. ROBINSON. Yes.

COUNCIL TASKS

Senator KASTEN. Then my last question, especially after the meeting yesterday in which I am sure you are talking about the tasks and directions you want to be taking, how would you describe the initial tasks of the Council in providing program advice and direction to the Foundation? What kind of a role are they going to play? I am sure this is going to be something you are going to be working on as the relationship develops, but I also would assume, especially if you had your first meeting you have established the kind of roles you expect them to play.

Mr. ROBINSON. Let me first, Mr. Chairman, give you a flavor of the types of people who have consented to join the Advisory Council. We have Dr. Vernon Johnson, who is an agricultural specialist. He is a former AID mission director, as well as former Deputy Assistant Secretary of State in the Bureau of African Affairs. We have Helen Kitchen, who is director of African Studies, Georgetown Center for Strategic and International Studies. We also have Mr. Richard Patton, who is senior vice president of the H.J. Heinz Co. He has very extensive experience particularly in the business arena in Africa.

Mr. Niles Helmbolt, who is president of the Equator Bank. This is one of the few commercial banks registered in America that does work exclusively in Africa. Mr. William Dyal, who is the past president of the Inter-American Foundation and currently president of the American Field Service, and I could go on and on.

We did meet yesterday. It was a very good meeting, very productive in terms of orienting the Council members on the mandate of the Foundation, what we have accomplished thus far as well as the potential the Foundation has for facilitating Africa's development.

We perceive the role of the Advisory Council as being one of assisting the Board, as well as the staff in determining types of projects and project emphases we should pursue in conjunction with our African recipients and beneficiaries throughout Africa. Second, we view the role of the Advisory Council as one of helping to disseminate information which we will develop through our research and evaluation activities throughout Africa, vis-a-vis our projects.

One of the mandates of this Foundation is to ensure that our experiences are disseminated not only to the African development community but to the international bilateral, multilateral, and PVO communities as well.

They will review and propose recommendations with respect to the Foundation's 5-year long-range plan and strategy.

We intend to have a followup meeting in June of this year and at that meeting, both the chairman of the Foundation's Board and I as well as the chairperson of the Advisory Council, who has yet to be named, will probably at that time announce a number of task forces that will work on very specific assignments which have not been delineated at this point.

Senator KASTEN. So your intention is to divide the group up possibly into a couple different task forces and then work on specific projects?

Mr. ROBINSON. That's right.

LONG RANGE PLANS OF ADF

Senator KASTEN. I have additional questions which we will submit to you for the record. There are a couple of questions having to do with the long-range plan. You made some reference to it, and that is, of course, of interest to the committee also. We are all interested in which directions you are going. We will submit those questions to you and you and your staff can respond to them in writing to the committee. I would like to thank you very much for your testimony this afternoon and wish you well.

I am hopeful you will be able to do the same thing for Africa we have watched the previous witness be able to do for people a little closer to home.

SUBMITTED QUESTIONS

This concludes the afternoon's session. I would like to once again thank the witnesses for their testimony. As I have mentioned you will have questions to submit for the record to all the witnesses. We ask the answers of those questions be returned promptly.

[The following questions were not asked at the hearing, but were submitted for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR KASTEN

THE AFRICAN DEVELOPMENT FOUNDATION

Senator Kasten: The General Accounting Office Report suggested that the Foundation will have completed by now a five year program which will set out an overall program strategy.

Can you tell me if this Plan has indeed been completed? Can you supply the subcommittee with a copy of that Plan?

If it has been completed -- How has the Five Year Plan treated the expansion issue in dollar terms? What growth projections does the Plan include and upon what basis were the projects made?

Mr. Robinson: The Plan is in unofficial draft form and hereby submitted for your preliminary perusal. The Board of Directors is currently reviewing this document, and I anticipate final approval and printing within two weeks.

The Plan does address the issue of fiscal expansion in the Executive Summary, and in detail beginning on page 81. The proposed projections are based on a thorough analysis, by ADF management and staff, of the Foundation's Congressional mandate, and the formulation of a specific plan of action to implement that authority in Africa.

Senator Kasten: How many projects has ADF established to promote grassroots community development in Africa--has currently approved for funding and in which countries?

Mr. Robinson: IN FY 1984, ADF provided funding for eleven (11) projects to promote grassroots community development at a total cost of $837,620 in six (6) African countries; and to date in FY 1985, ADF has funded nineteen (19) projects to promote grassroots community development at a total cost of $1,159,411 in seven (7) African countries. A detailed description of each project including the country of origin of each project, type of financing provided, cost, funding period and status of implementation of each are presented in Appendix A.

Senator Kasten: For those projects that have entered the implementation stage, what type of requirements have they placed on ADF staff in terms of monitoring and management control?

Mr. Robinson: For projects which have entered the implementation stage, a schedule of monitoring visits has been established by the Office of Program and Field Operations. Foundation Representatives are scheduled to visit a project for monitoring within three months from the date of the initial disbursement. A second visit is scheduled to occur after the sixth month of operation of the project. As an additional management tool, a roster of qualified and reputable African consultants located within each country has been prepared. These consultants, complements to ADF's field staff, will be able to provide periodic on-site monitoring thus establishing a more constant ADF presence within the country.

The disbursement of grant funds is contingent on the receipt and approval of the grantee's quarterly report. Grantee's are required to provide quarterly fiscal and program reports. Additionally, each funded project includes the cost of an annual audit. Reputable African companies are contracted by ADF to provide technical assistance in the form of establishing and maintaining record keeping systems for grantees. The audit firm also assists the grantee in preparing quarterly fiscal reports. At the end of the total life of the project, contracted audit firms perform final audits on all projects.

Senator Kasten: Can you elaborate on (1) the potential for using loan and loan guarantees at the grassroots level in Africa; and (2) the implications of such projects on ADF management, monitoring, and control?

Mr. Robinson: Operating capital and accessible credit are scarce resources at the grassroots level in Africa. ADF is excited about the potential of launching a loan and loan guarantee program targeted to the grassroots level in Africa. We believe there is enormous potential for the use of ADF's loan and loan guarantee authority in Africa, particularly as a vehicle for responding to requests from small scale entrepreneurs who are desirous of establishing and/or expanding businesses which would have a substantial positive impact on the living conditions of the poor. As a result of receiving a number of such requests, the Foundation initiated a thorough review of the implications of mounting a loan and loan guarantee program given our current staff, financial resources and legislative authorities. The Foundation has determined, at least preliminarily, that the effective management of such a program on any economical scale would require a substantial increase in ADF's staff and budget, as well as several amendments to the Foundation's enabling legislation, including a provision to allow the Foundation to retain loan reflows.

Recognizing the great need for credit at the grassroots level in Africa, ADF is experimenting with alternative means of providing funding on a loan rather than grant basis without having to assume the management and budgetary burdens normally associated with such programs. This approach is exemplified by the number of grants the Foundation has provided to local institutions in order to establish revolving loan funds managed by the grantee, thus providing credit to farmers and/or entrepreneurs in a local area. Approximately 23% of the total number of ADF supported projects contain loan fund components.

Senator Kasten: Based on this information, how many projects can the Foundation effectively manage at its current staff levels?

Mr. Robinson: Most of the Foundation's projects are in various stages of implementation. It is too soon to draw conclusions regarding the number of projects ADF can effectively monitor. However, this is an issue ADF is closely monitoring to guarantee that the Foundation does not become overextended in this important area.

The ability to monitor projects is also closely tied to and restrained by the present staffing ceiling of 20 employees.

Senator Kasten: How does the Foundation plan to assess the results of its projects, and when will such information be available on the projects funded to date?

Mr. Robinson: As part of its standard proposal review process the African Development Foundation (ADF) requires each applicant to identify quantifiable and qualifiable goals and objectives. Applicants are also required to present realistic plans for achieving stated goals and objectives. ADF will assess the results of all projects funded against the achievement of those stated goals and objectives. A monitoring system has been established. It requires quarterly program and fiscal reports from each grantee. Periodic evaluations will be conducted on each ADF supported project, using the project's stated goals, objectives and work plans to determine progress achieved.

An Office of Research and Evaluation is being established to evaluate ADF's funded projects and assist grantees in conducting self-evaluations. In this way, ADF will be effective in documenting self-help and self-evaluation strategies and in disseminating findings to the development community.

Senator Kasten: What project funding objectives and grassroots assistance priorities has the Foundation established as part of its five year plan?

Mr. Robinson: ADF's Five-Year Plan is designed to place emphasis on project-related funding, while minimizing personnel and administrative costs. The total annual obligations projected through the Plan increase incrementally from $13.4 million in FY 1986 to $30.2 million in FY 1990. During the period covered by the Plan, 80.9% or $95.6 million of ADF's projected resources is to be transferred into direct investments in local African development projects. ADF has established funding objectives and grassroots assistance priorities as part of the Five-Year Plan. Included among the priorities are projects that focus on agriculture, private sector business development, management capacity building, education/training, health care, and community development.

Senator Kasten: Have priorities been established for the allocation of funds by country/region as part of its five year plan?

Mr. Robinson: In the initial funding cycles, ADF emphasized countries that represent in many cases the poorest of the poor in terms of the Gross National Product (GNP), Gross Development Product (GDP), and per capita incomes. Another major consideration was the extent to which grassroots development activities were occurring in the countries. ADF, following a balanced funding strategy, has funded projects in the East, West, Southern and the Sahel regions of Africa.

During the life of the Five-Year Plan, country and regional selection priorities will be influenced by the volume of requests per country and ADF's staffing level. In keeping with the legislative mandate, the Foundation must be responsive to African initiatives rather than be the initiator of projects.

Senator Kasten: Have priorities been established for certain sectors of assistance or types of Foundation support within individual assistance sectors?

Mr. Robinson: Projects with potential for income generating, self-sufficiency, and projects that contain self-evaluation components, or increased food production objectives will be given special consideration for funding. Projects that are controlled by and/or include Africa's poor in the substantive design, management and evaluation phases will also receive priority consideration.

Senator Kasten: In terms of these five year planning goals, has the Foundation documented the administrative requirements associated with its programming objectives?

Mr. Robinson: As part of the planning process, administrative requirements were developed in tandem with programming objectives. Systems and resources for efficient, effective financial management are now operational. The Five-Year Plan includes documentation, reflecting the expansion and redesign of these systems as administrative requirements and programming objectives change and develop.

Senator Kasten: To what extent will the further use of consultants be required for development of the Foundation's administrative and programming capacity to meet planned goals?

Mr. Robinson: ADF's core staff which represents 155 years of African and development expertise should be sufficient to put in place the appropriate administrative, management and program systems required to successfully implement and control the quality of ADF's planned activities. In order to reduce ADF's use of consultants and part-time employees, ADF's core staff must keep pace with the demand placed on ADF by African requests for assistance and other related activities. The Five-Year Plan anticipates that Full Time Equivalency (FTE) growth will correspond to the maximum growth allowed in Title V of P.L.

96-533 (the African Development Foundation Act of 1980). The extent of ADF's use of consultants and part-time employees is integrally tied to the Foundation's staffing and funding levels. Until the FTE growth begins to approximate that allowed in the enabling legislation and the funding level increases, ADF will be forced to rely on part-time employees in order to monitor, evaluate and support projects in the field.

Senator Kasten: ADF's authorizing legislation envisioned that its programs would be modeled after those of the Inter-American Foundation (IAF) which has supported community development in Latin America and the Caribbean for over ten years. Questions have been raised recently regarding the applicability of the IAF model to the much less developed African environment. What are ADF's views on these questions and their implications for a community development program strategy in Africa?

Mr. Robinson: Africa is not Latin America. Adequate institutional and organizational infrastructures exist in most African countries to absorb direct assistance targeted to grassroots development. The last decade has witnessed the growth of new indigenous, non-governmental organizations, village based cooperatives/associations, national women's groups, national credit union leagues and small community-oriented savings and loan associations. The majority of these entities are not only mandated to serve Africa's poor, but have the capacity to effectively manage the infusion of additional funds.

We feel that an IAF model, targeting assistance to the urban and rural community level in developing countries, is also an appropriate model for targeting assistance in the African context. Under optimal conditions, it has been estimated that only 25 to 40% of the populations of African nations benefit from foreign development assistance delivered through national governments--the major mechanism by which traditional foreign assistance is delivered. Benefits apparently do not trickle down to a majority of the African people. Host countries often lack adequate and appropriate infrastructures needed to ensure that benefits from foreign assistance accrue to a majority of their citizens. Using the IAF model and thus furnishing aid directly to those who require it in Africa, ADF is able to provide development assistance in a most effective manner, reaching a broader constituency.

This model is also most appropriate for Africa because it is inherently a decentralized assistance model. When one considers the fact that there are over 1,000 different ethnic groups and 2,000 languages in Africa, plus the sheer diversity in lifestyles and customs of the people, using a decentralized method of delivering assistance makes a lot of sense.

Senator Kasten: Do you believe ADF's authorizing legislation provides the necessary guidance for establishing an effective program of grassroots assistance, in the current African environment affected by serious development problems at all levels?

Mr. Robinson: I am pleased to report that we have just completed an in-depth analysis of ADF's authorizing legislation. That Congress intended ADF to work through existing and new indigenous African structures using a micro approach to provide grassroots development assistance to the people of Africa, is very clear. We shall be guided by that intent in each of our activities. However, ADF's mandate can be greatly enhanced if ADF's authorizing legislation is amended to extend ADF's authority beyond September 30, 1985 and to provide for no year appropriations. In order to mount an effective loan program in future years, we believe that it would be highly desirable to have language in ADF's legislation authorizing ADF to recycle funds recovered through the repayment of loans.

(The analysis follows:)

BLUEPRINT FOR ACTION

The Five - Year Plan
1986 - 1990

AFRICAN DEVELOPMENT FOUNDATION

CHAIRMAN'S MESSAGE

The following pages reflect the African Development Foundation's collective vision for the next five years.

The process followed to arrive at this "blueprint," although long and laborious, represents an amalgamation of ideas and opinions. This process was necessary in order to consider and incorporate the dreams and aspirations of ADF Board members, staff and advisors. Of course, the plight of Africa's urban and rural poor served as the beacon for the Plan's development.

With specific instructions from the Board of Directors, individual members of the Board, principally responsible for facilitating the Plan's development, traveled to several African countries to conduct interviews with potential beneficiaries of ADF assistance and African leaders (public and private) to ascertain ideas and opinions on how ADF might best assist their ongoing development assistance strategies and goals. Board members were also interviewed individually in the process of preparing the Plan. Through these interviews and numerous other meetings, ADF's Board of Directors provided the critical direction for the substantive design of this Plan.

The will of Congress also provided significant backdrop for this Plan's development. The Board and senior staff spent many hours examining ADF's authorizing legislation to glean both an appreciation and understanding of the Congressional intent associated with ADF and its mission. I feel confident that the components of this document reflect the spirit of that Congressional mandate.

The thought of presiding over the implementation of this Plan gives me great pleasure. I am honored to have been selected by President Reagan and approved by the U.S. Senate to serve as the first Chairman of the African Development Foundation.

May I be equal to this great challenge of leadership by bringing hope where there is despair and assisting Africa's poor with finding lasting solutions to the problems of poverty and economic dependency.

Wm F. Pickard

William F. Pickard, Ph.D.
Chairman

FROM THE PRESIDENT

The staff and I vigorously accept the challenge of implementing ADF's first Five-Year Plan. We are honored that the Board of Directors has entrusted us with the responsibility of shepherding ADF through its formative years.

We shall approach this task with the full realization that we are charged with guaranteeing that ADF responds to the needs of Africa's poor as mandated by Congress. We also recognize that during this period of national austerity, we have a responsibility to spend less more wisely. This critical real world constraint suggests that the type of direct assistance Congress has mandated to ADF must be targeted to Africa's indigenous poor--that is, if the American public is to begin to realize a meaningful return for its invested development tax dollars. ADF has assembled a core staff of professionals experienced in African development, who are fully capable of directing ADF through the challenges that lay ahead.

The Five-Year Plan is an essential management tool for the ADF staff and its Board. Its developmental process enabled ADF to examine options for carrying out its mandate. The planning process has helped us review ADF goals and objectives as they were prescribed by Congress. The Plan will also assist us in gauging our course of action through 1990.

Joining in partnership with the U.S. international and African development assistance community, ADF looks forward to working collaboratively with Africans in supporting community self-help approaches that are critical to the continent's development.

Leonard H. Robinson, Jr.
President

ACKNOWLEDGMENTS

The African Development Foundation became operational in 1984 as a result of efforts by concerned and sensitive policymakers and foreign assistance professionals to assist the self-initiated attempts of Africans to develop viable and healthy communities. ADF expresses gratitude to all involved in those efforts. We would like to express our appreciation to the Development Group for Alternative Policies (the Development GAP), the Inter-American Foundation (IAF) and the U.S. Agency for International Development (USAID) for the roles they played in creating the African Development Foundation. It was the Long-Term Planning Unit of the African Bureau of USAID that conceived of the idea of creating ADF in 1975. Subsequently, over the ensuing eight years, the Development GAP promoted the idea and worked with others to refine the ADF concept. These concerned policymakers and foreign assistance professionals worked with the Congressional committees, Executive Branch agencies and other interested parties to make the Foundation a reality. IAF and USAID provided invaluable support in the actual establishment of ADF in 1983-1984.

The individual efforts of Dr. Samuel Adams, Tim Bork, Goler Butcher, Esq., Johnnie Carson, Bill Dyal, Beven Dufty, Haven North, Fred O'Regan, Dr. Frank Pinder and Douglas Robbins were critical to the development of the Foundation.

Percy Wilson, Vice President, and Jennifer Douglas, Special Consultant, deserve special commendation as the principal architects of this Plan. The contributions of ADF staffers Earl Brown, Francis Kornegay, Paul Magid, Michael Miller and Ann Richardson were invaluable in the process of determining its scope and parameters.

This plan could not be considered complete without the able oversight of Robert E. Brown and Pamela A. Taylor. Mary-Jo Allen, Bernadette Brown, Janis McCollim, Thelma Wingard-Turner and Teixeira Nash are to be thanked for their devoted efforts to the technical aspects of producing the document.

EXECUTIVE SUMMARY

This Report is divided into two parts. Part I addresses the issues associated with African grassroots development, the economic crisis in Africa impacting that development and the U.S. foreign assistance response. Part II describes the salient features of ADF's Long-Range Plan for FY 1986 through FY 1990.

Part I

The self-determination ethos and self-help efforts of Africans are intricately linked to the worsening economic crisis in Africa and the extent to which major donor strategies are appropriately designed, adequately funded and effectively administered to address the current crisis and the long-term development needs of the African continent and its people. The Foundation is an outgrowth of the U.S. development assistance community's dialogue on and assessment of the crisis, realistic alternatives for Africa's development and the subsequent U.S. response.

The U.S. Congress authorized the creation of the Foundation with the passage of Title V of Public Law 96-533 (African Development Foundation Act of 1980). However, ADF actually became operational in February, 1984. The intent of its framers serves as the major guide for ADF's operations and Long-Range Plan as presented here.

ADF is a public corporation, established by Congress to provide financial support directly to the local level (grassroots) self-help development initiatives of Africans. ADF pays special attention to expanding self-help development opportunities that include the substantive participation by the poor in the design, implementation and evaluation phases of projects. Care is also taken to ensure that Africa's poor benefit from ADF assisted projects. ADF monitors and evaluates self-help projects receiving ADF support. Learning gleaned from monitoring and evaluating ADF assisted projects is then disseminated to the appropriate domestic and international audiences.

The Foundation's primary goals relate directly to its mandated purposes and include:

- Strengthening "the bonds of friendship and understanding between the people of Africa and the those of United States";
- Supporting "self-help activities at the local level designed to enlarge opportunities for community development";
- Encouraging and expanding opportunities for indigenous Africans, particularly the poor, to participate in and benefit from the development processes; and
- Encouraging the "establishment and growth of development institutions," controlled by indigenous people, that respond to the needs and aspirations of Africa's poor, in the specific countries where the organizations operate.

During its first calendar year of operations ADF received 409 requests for financial assistance totalling more than $27 million. In response, ADF provided $1,008,161 in support of 13 projects in 6 African countries. The Foundation also began the process of refining its operations and planning for future operations. It is in this spirit that the Foundation approached the initiation of a long-range planning process to guide its endeavors for FY 1986 through FY 1990.

Part II

The Long-Range Plan is guided by five long-range objectives and concomitant strategies. Each is presented below.

Objective A: To foster the creation and growth of local development institutions and provide support to self-help development efforts

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This is the primary objective presented in the Long-Range Plan. Most of ADF's financial and human resources are allocated to strategies and accompanying tasks put forth to achieve this objective. Eight broad strategy areas are proposed:

- Providing direct support (grants, loans and loan guarantees) in an effective, appropriate and efficient manner, to local African development institutions and community self-help projects. The implementation of this strategy requires ADF to evaluate and fine-tune funding procedures; and to study, design and implement a loan and loan guarantee program.

- Transferring knowledge gained from ADF supported activities to audiences including the development assistance community, the U.S. public, the academic community, Africans and U.S. and international policymakers. The knowledge disseminated will correspond, to the extent possible, to the identified issues and skills critical to grassroots development in Africa and the role of the poor in that development.

- Informing the U.S. private sector about ADF, the problems facing Africa's poor, and the relationship(s) of problems facing Africa and its poor to the U.S. private sector's long-term interests.

- Stimulating and nurturing linkages between the African private sector and African urban community and village development institutions that encourage participation of the poor in African development strategies.

- Conducting research on questions, issues and problems that impact local African institution building and self-help development models. The strategy is designed to serve as a guide for the development and implementation of ADF's research activities.

- Conducting evaluations designed to document the effectiveness and impacts of ADF supported program efforts, as well as the processes used in the development, management, and implementation of those efforts.

- Developing and implementing a management information system, thus enhancing ADF's capacity to better oversee the effective use of its assistance.

- Reviewing and refining ADF's management operations in order to foster the creation and growth of indigenous grassroots institutions and provide support to self-help initiatives; and enhancing existing organizational management systems in order to ensure the effective administration of grants, loans and loan guarantees.

Implementation. The Program Review Committee, with membership from the senior staff of the Offices of the President, Administration and Finance, Program and Field Operations, and Research and Evaluation will work collaboratively with the Office of the President to refine procedures and criteria critical to the achievement of this objective.

Time frame(s). Strategies presented to guide program support activities, project selection procedures and criteria, U.S. private sector collaborations, African private sector collaboration, ADF implemented research, knowledge transfer activities and management review and refinement activities will be initiated in FY 1986. ADF's loan and loan guarantee program will be researched and tested between FY 1986 and 1988. However, the fully operational loan and loan guarantee program will be implemented between FY 1989 and FY 1990.

Objective B: To provide support to development research initiatives designed and implemented by Africans and the transfer of development resources, expertise and knowledge within Africa

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Through the achievement of this objective, ADF will provide support to African researchers and thus enhance their opportunities to address issues and problems impacting self-help development efforts of Africans at the local level. Strategies proposed to achieve this objective include:

- Reviewing and refining ADF's management system and developing procedures and accompanying criteria to ensure that ADF's support to indigenous African research initiatives and research entities (individual and organizational) is delivered efficiently and appropriately. Resources used to implement the ADF-assisted research component are focused on guaranteeing that ADF's support is targeted to research initiatives addressing issues relevant to grassroots development and the role of the poor in that development.

- Facilitating the transfer of knowledge gleaned from the research of indigenous African researchers to appropriate African audiences.

- Bringing private sector (U.S. and African) support within the reach of indigenous African researchers.

- Determining impact(s) of ADF's assisted research component on local self-help development organizations and initiatives and on the role of the poor in that development.

Implementation. The Office of Research and Evaluation is responsible for implementing activities proposed under this objective.

Time frame(s). Program support and knowledge transfer strategies will be initiated in FY 1986; private sector collaboration and evaluation strategies will be initiated in FY 1987.

Objective C: To encourage the development of self-evaluation techniques by participants in projects supported through the Foundation for the purpose of transferring experience gained in such projects to similar development activities

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The development of Africa by Africans is integrally tied to the willingness and ability of Africans--who are involved in the social, economic, and physical development of their communities--to evaluate their initiatives, document the programmatic processes and impacts of their efforts on African communities and to share such information with each other. The strategies under this objective are, therefore, designed to facilitate the generation and sharing of such information among Africans engaged in community level development activities. These include:

- Identifying tasks associated with supporting and encouraging the development of self-evaluation capacities at the grassroots level in Africa and internally at ADF.

- Supporting the transfer of knowledge and skills gained from self-evaluation initiatives through ADF publications to the appropriate audiences.

- Encouraging the development and maintenance of innovative linkages between the African indigenous, private sector and grassroots organizations; and targeting U.S. private sector support to this objective.

- Supporting the development, maintenance, and transfer of knowledge gained from indigenously designed, self-evaluation methods to appropriate audiences.

- Requiring close collaboration between ADF's Offices of Research and Evaluation and Program and Field Operations.

- Controlling the quality of self-evaluation and monitoring the implementation of self-evaluation activities.

Implementation. The successful implementation of strategies under this objective will require the following ADF organizational units to carry out the following roles and responsibilities: the Program Review Committee will be responsible for reviewing and refining project selection procedures and criteria to target more effectively ADF's resources to those activities with self-evaluation components; the Public Affairs Division within the Office of the President will be responsible for knowledge dissemination activities associated with this objective; the Office of Program and Field Operations will be responsible for tasks associated with project monitoring and African private sector collaborations; and the Office of Research and Evaluation will be responsible for tasks associated with research and evaluation.

Time frame(s). The program support strategy will be initiated in FY 1986; the knowledge transfer, private sector collaboration, assisted African research, project monitoring and evaluation strategies will be initiated in FY 1986; and the development education strategy and specific tasks associated with disseminating research findings on indigenously developed self-evaluation models will be initiated in FY 1987.

Objective D: To support and encourage the procurement of indigenous African technical and other assistance as is deemed appropriate by recipients of ADF support

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Strategies to guide the achievement of this objective require providing ADF support to activities that forge linkages between African experts--from the African private sector, the academic community and intermediary organizations--and local community and village organizations receiving ADF support. Six strategies are proposed to achieve this objective. They include:

- Facilitating the linkage of African providers of technical and other expert assistance to grassroots institutions receiving ADF support. Technical and other expertise in such areas as management, agriculture, small business development and health care are to be brought within the reach of ADF assisted initiatives in the most timely, cost-effective and efficient manner possible. Emphasis is also placed on guaranteeing that technical and other expert assistance translates into new skill development within the targeted community and/or village organization receiving ADF support.

- Developing an approach that enables ADF to support the preparation and dissemination of technical assistance ("how to") manuals on areas critical to the self-help initiatives of indigenous Africans.
- Stimulating and supporting opportunities for joint venture projects between the African private sector and organizations/initiatives funded through ADF. The indigenous African private sector possesses a reservoir of practical expertise and knowledge that can be used by indigenous grassroots organizations in implementing ADF supported activities.
- Determining the impacts of ADF assistance on the effectiveness and efficiency of organizations and initiatives, which it supports.
- Ensuring that the critical roles of technical and other expert assistance are reviewed in a timely and systematic manner and guaranteeing that they correspond to recipient needs.
- Developing and implementing an efficient and cost-effective process for guaranteeing that ADF supported TA and other assistance meets the needs of ADF supported initiatives and grassroots institutions. This strategy will promote the creation and growth of linkages between indigenous liaisons, regional professional organizations, local development organizations and Africa's poor.

Implementation. The Program Review Committee will be responsible for assessing and refining project review procedures and criteria related to the program support strategy; and the Office of Program and Field Operations will be responsible for implementing the programmatic tasks associated with the program support strategies presented to achieve this objective. The knowledge transfer strategy responsibilities are targeted to the Office of Research and Evaluation; and the programmatic private sector responsibilities are targeted to the Office of Program and Field Operations. Evaluation responsibilities will be assumed by the Office of Research and Evaluation. The Office of Program and Field Operations will be responsible for project monitoring and field support strategies. All publications related tasks, associated with knowledge transfer and private sector collaborations, will be undertaken by the Public Affairs Division within the Office of the President.

Time frame(s). The program support, knowledge transfer, evaluation, project monitoring and field support strategies will be initiated in FY 1986. The majority of the tasks contained in the private sector collaboration strategy will be initiated in FY 1987.

Objective E: To communicate to the U.S. public and multilateral development institutions insights gained from the implementation of African self-help development projects assisted through the Foundation

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ADF was created to "strengthen the bonds of friendship between" the people of Africa and the people of the United States. It was also established as a laboratory to identify the most effective and efficient ways of providing support to African self-help initiatives, to learn from the provision of that support, and to disseminate the information gained to the appropriate audiences in the United States and the development assistance community. This objective and the accompanying four strategies chart ADF's path towards realizing the purposes for which it was created. The strategies put forth to achieve this objective include:

- Transmitting the lessons learned from ADF's support of African self-help development activities to the appropriate audiences in Africa, the United States and throughout the international development assistance community.
- Creating and maintaining linkages between ADF and the U.S. private sector in order to disseminate information regarding ADF and the economic and social development models that are designed and implemented by Africa's poor communities.
- Strengthening the in-house capacity of ADF to communicate to the U.S. public and multilateral development institutions insights gained from African development projects assisted through the Foundation.
- Providing ADF with an approach for collecting information, in a timely and cost-effective manner, to be disseminated to appropriate audiences.

Implementation. With the exception of tasks associated with establishing an Internship Program and Resident Scholar's Chair at ADF, the Public Affairs Division within the Office of the President is the organizational unit responsible for implementing the strategies presented to achieve the objective.

The Office of Administration and Finance will be responsible for the development and maintenance of the Internship Program; and the Office of the President will be responsible for the Resident Scholar's Chair.

Time frame(s). Tasks associated with establishing the Resident Scholar's Chair; the Internship Program and working with colleges and universities will be initiated in FY 1987. All other tasks associated with achieving this objective will be initiated in FY 1986.

Implications for ADF Operations

During FY 1986, ADF will expand its scope of operations in order to continue to assume its mandated responsibilities. ADF intends to provide support to approximately 160 projects in 16 African countries. The average size of the grants will be approximately $70,000. In addition to recruiting and hiring additional personnel necessary for supporting ADF's planned activities, the Foundation will review and refine management systems and administrative policies and procedures that directly impact the effectiveness and direction of ADF's organizational and program operations. ADF will focus specifically on bringing the Research and Evaluation Office and the Public Affairs Division within the Office of the President on-line. Once these units are fully staffed, ADF will utilize these units, along with other appropriate organizational units, to plan and initiate activities resulting in the creation of linkages and relationships among ADF and the various communities of interest in the United States and Africa.

During FY 1987, the Foundation will provide support to 230 projects in 23 African countries. The average size of the grants is projected to remain at $70,000. In accordance with the mandate and as required to support ADF's operations, adequate and appropriate staff will be hired. ADF's leadership and staff will be required to accomplish activities that build on actions taken during FY 1986. Special attention will be given to strengthening the effectiveness of ADF in its endeavors to stimulate and foster cooperative relationships among the U.S. private sector, African recipients of ADF support, the African private sector and ADF.

In FY 1988, ADF anticipates providing support to 300 projects in 30 African countries. ADF will continue to recruit and hire adequate and appropriate staff to support ADF's operations and expanded level of assistance. Activities during this third year of implementation will focus on conducting a mid-term evaluation of ADF operations and the Long-Range Plan. ADF's management and staff will be required to design and conduct process and impact evaluation activities, determine whether or not the Plan is being effectively implemented and assess the impact of the Foundation on the urban communities and villages assisted by ADF in Africa. The result of the proposed evaluation will be the refinement of the Plan.

In FY 1989, the Foundation will provide support to 370 projects in 37 African countries; and in FY 1990, the Foundation will provide support to 400 projects in 40 African countries. The average size of the grant is anticipated to remain about $70,000. Additions to the staff will be made where necessary and appropriate in accordance with ADF's mandate. Activities proposed for the final years of the Long-Range Plan focus on expanding the capacity of ADF to bring the loan and loan guarantee program on-line. ADF 's staff and management will work during this period of implementation to review and refine its approaches to funding, monitoring, researching and reporting on African self-help development models.

The budget allocations proposed to implement this Long-Range Plan reflect the minimum assistance levels required by ADF to respond effectively to the problems facing Africa's poor. Thus, the budget for FY 1986 through FY 1990 is projected as follows:

(millions $)

FY '86	FY '87	FY' 88	FY '89	FY '90
$13.4	$21.0	$25.8	$27.7	$30.2

INTRODUCTION

Many well-intended initiatives, ostensibly designed to benefit Africa's needy, have significantly widened the gap between the poor and the rich. Yet, similar ineffective initiatives continue to be targeted to African governments that understandably neither have the infrastructure nor the resources to guarantee that benefits accrue to those needing them the most.

This reality forged an unusual coalition of professionals--staff of the U.S. Agency for International Development (USAID), experts with extensive experience in development assistance, and concerned Congressional leaders. These Congressional leaders and development experts worked together for nearly a decade to create a development assistance strategy that would be effective in reaching Africa's poor. Their efforts resulted in the creation of the African Development Foundation (ADF) in 1980.

The African Development Foundation became operational in February 1984. In its first calendar year of operation, the Foundation received 489 requests totaling more than $27 million. ADF provided $1,008,161 in support to 13 projects in 6 African countries. Although requests for assistance far exceed the Foundation's limited resources, ADF maximizes its impact by supporting projects that are consistent with its Congressional mandate.

This Report is divided into two sections. Part I assesses impacts of the African economic crisis and traditional foreign assistance strategies on the development opportunities available to most Africans. This assessment is followed by a presentation of ADF's philosophy and mandate. Part II documents the ADF approach and details its Five-Year Plan as well as strategies for implementation.

PART I

AFRICAN DEVELOPMENT FOUNDATION

Combating the African Development Crisis

CONTINENT IN CRISIS: AN OVERVIEW

> A primary objective of socio-economic development is the improvement of life for the entire population of the nation. The attainment of this objective requires full participation of all segments of the population in gainful and productive employment and the provision of all essential services for enrichment of life of the community. It also requires effective programs of social welfare, community development, social security and mobilization of the masses for the development of public works and community services.[1]

The opportunities for Africans to develop and maintain viable social, economic and political institutions are inextricably tied to and negatively affected by what is increasingly being called the "African economic crisis." This crisis is reinforced both by adverse demographic, ecological, political, and economic trends, as well as inadequate traditional and development strategies. Drought, famine, disease, poverty, and decreasing growth and production rates are but a few of the problems associated with this pervasive economic crisis.

Demographic, Ecological and Political Factors

According to the Census report, Population Growth in Africa: 1950 to 1983, the African continent has "the highest birth and death rates in the world" resulting in "an exceedingly high population growth rate," which has increased steadily from 2.2 percent yearly for the five-year period 1950-1955 to 3.0 percent from 1980 to 1983.[2] The eastern and western regions of the continent, which "constitute over half the population of Africa, have the highest crude birth rates and the second highest crude death rates among all world subregions."[3] An examination of Kenya and Rwanda, for example, is illustrative of the serious implications for African development posed by the continent's explosive demographics.

"Kenya, with an estimated total fertility rate of 8.1 percent and crude birth rate of 54 per 1,000 population in 1977, has the highest fertility rate of any country in the world."[4] This population explosion takes place against a backdrop of "diminishing size of the average smallholdings." By 1976, it was estimated to be "1.6 hectares per peasant family," shrinking in 1979 to "1.2 hectares." Unemployment in Kenya's capital, Nairobi, is a staggering 30 percent, while poverty in the more rural locales is so pervasive that it threatens the country's stability.[5]

Just as Kenya has the distinction of having the highest fertility rate in the world, French-speaking Rwanda in east-central Africa has one of the highest population growth rates in the world at 3.7 percent. In fact, the plight of the Rwandese subsistence farmer threatens this tiny nation's tenuous--albeit burgeoning--food production industry. Subsistence farmers represent 90 percent of Rwanda's 5.2 million population and account for 95 percent of the country's arable land cultivation.[6]

Another major threat looming over Africa is the pervasive degradation of the land and environment. This crisis, in turn, has reinforced similarly adverse climatic trends resulting in widespread desertification, which is directly linked to the spread of drought in much of the continent. Desertification, an insidious process in which "the biological productivity of land is sharply degraded by human abuse and natural factors, is an important underlying cause of the famine that has killed hundreds of thousands of Africans in recent years" according to environmental specialist Phillip M. Boffey, who also points out that "drought and desertification are intertwined."

Boffey goes further in expressing concern that desertification may be an irreversible process: "According to one meteorological hypothesis, the loss of vegetation in areas actually increases the likelihood of future droughts through a complex series of biological and atmospheric interactions."[7] Thus, overcultivation, overgrazing, poor irrigation practices and deforestation contribute to the desertification/drought process. "The current African drought, which began in the southern region in 1981 and spread through the Sahel in 1982, continues to have a major impact on crops and livestock in many countries. About 30 countries are suffering from abnormal food shortages."[8] For example, in Madagascar (off the southeast coast of Africa), land degradation has led to a loss of more than 90 percent of its woodlands.[9]

In many cases, the ecological factors associated with drought reflect the cumulative impact of traditional techniques of land use on subsistence agriculture. There is a need for a fundamental cultural change in the overall development process. On the other hand, stressful cultural changes forced by drought and famine are already placing severe strains on the social fabric in many African settings.[10] This reality is compounded further by growing refugee problems, rooted in the complex political history of much of the continent. Political instability in Africa even further compounds the refugee crisis. Today, one out of every 200 Africans is a refugee, representing at least representing 25 percent of the world's refugee population.[11] Nevertheless, in its economic, demographic, social and ecological dimensions, this negative process of underdevelopment can be turned around. Positive cultural and appropriate technological transformations aimed at arresting the underlying dynamics of Africa's protracted crisis--economic, social, ecological--should be the outcome of a grassroots process of participatory development.

Important assumptions underlying the participatory approach to development in the African context include the following:

- The self-determination ethos and self-help initiatives of African nations and their citizens are critical ingredients in designing and implementing successful development strategies in the African context;
- In order to guarantee that development efforts benefit the intended beneficiaries of development assistance (Africa's poor), the development assistance strategies of donor nations must be amended to support and respect the self-determination ethos and self-help initiatives of African nations and their citizens;
- Appropriately designed donor strategies targeted to Africa must focus on supporting labor-intensive initiatives at the local level--the center of life and the focal point of development in the African environment; and
- At the local (grassroots) level, Africa's poor and those who represent the needs and aspirations of the poor are designing and implementing development initiatives in an attempt to develop their communities and improve the socioeconomic opportunities within their reach.

There are some within the donor community who express doubts regarding the viability of the self-help approach in Africa. They question whether or not there is enough activity at this level to merit or warrant the attention of the donor community. The experiences of ADF during its first year of operation indicate that Africans at the grassroots level are actively engaged in designing and implementing development initiatives in their communities. In fact, the current level of requests for assistance far outweigh ADF's capacity to respond: requests for assistance in the first calendar year represent approximately 400 percent of ADF's current annual appropriation. (Examples of the participatory development initiatives funded through ADF are included in Appendix C.)

The Economic Crisis

Writing in CSIS Africa Notes, development specialist Elliot Berg observed that "Africa's economic crisis is severe, general, and worsening." He elaborated on its many dimensions: stagnant or declining per capita production (with the African region growing more slowly in the seventies than any other developing region of the world); problems of internal and external accounts (including high debt service obligations and shrinking reserves); sharp declines in agricultural production, transforming many African countries from food self-sufficiency into food deficit/dependency (with only Kenya, Malawi, Swaziland, Cameroon, Ivory Coast and Rwanda showing increases in agricultural production of more than 3 percent yearly); and a breakdown in institution-building with government decision-making capacities remaining weak or growing weaker.[12]

The extent of the general decline in Africa's global economic affairs is clearly reflected in the case of Nigeria. Because of its enormous population growth--now an estimated 100 million (the largest nation on the continent) and development subsequent to independence, Nigeria depends heavily on a high-level of crude oil production. This overdependency on oil, coinciding with stagnation in other economic sectors--particularly in agriculture and food production--has contributed to Nigeria's increasing vulnerability to fluctuations in the oil market--despite its much touted position as the first or second largest supplier of oil to the United States. By the end of the 1970s when non-OPEC production began to transform the international petroleum market into an "oil glut," Nigeria's economic fortunes were clearly on the decline. The reverberations of this decline were felt throughout West Africa (notably in Ghana) in the mass expulsion of alien workers from neighboring members of the Economic Community of West African States (ECOWAS) in 1983.

United States and Development Assistance

With the passage of the Act for International Development in 1950, the United States initiated a policy of providing foreign aid assistance to developing countries. While there are obvious humanitarian reasons that can and must be cited as major justifications for providing assistance to developing nations, U.S. economic and security interests remain the primary motivation for U.S. foreign and other assistance to developing nations. For example, developing countries account for 40 percent of U.S. export markets. In 1983, the Department of State "estimated that about 70 percent of bilateral U.S. assistance disbursements and 50 percent of our contributions to multilateral development banks are spent on U.S. goods and services."[13] The developing world also provides the United States with many valuable commodities critical to its military and industrial activities. Most of the cobalt, bauxite and manganese imported by the United States come from African nations.[14] From this perspective, it makes more sense for the United States to use its development assistance approaches to support strategies in the developing world that promote healthy economies, stable environments, and the expansion of opportunities for African people.

Development Assistance

In the African context, development assistance from the United States and other major donor nations has not met expectations regarding the creation and maintenance of politically stable and economically viable environments nor has it encouraged the maximum participation of Africans. Traditional development assistance has primarily provided support to large and capital-intensive projects at the national level. The following observation by the Development Group for Alternative Policies (GAP) indicates:

> Despite the transfer of vast amounts of financial, technological, and material resources and the concomitant growth of national and multilateral assistance institutions since World War II, sustained development in the Third World has proceeded at an extremely slow pace. Consequently, the gap, in terms of quality of life, between rich and poor--both internationally and intranationally--has continued to widen amid rising expectations.[15]

Moreover, major international donors have begun to question traditional approaches to development assistance. This trend with respect to Africa is reflected in the following item:

> Hundreds of dams, roads and irrigation projects now lie useless, experts say, doomed by excessive size and designs that proved inappropriate for local conditions and needs. "Real solutions require very small projects, installed with maximum local help, local training and cooperation from the village chief" says a top official of one finance agency. We haven't done this well in the past.[16]

Major intended beneficiaries of these strategies are generally the poor of Africa. However, experts agree that poor Africans are often ignored in the design, implementation, management and evaluation of the strategies. Consequently, few if any benefits accrue to those needing them the most, and the goals and objectives of major donor assistance agencies generally remain unmet and unfulfilled.

Traditional approaches to development have also not been fully effective because they are usually not designed with a sensitivity to the African environment. Such approaches normally target resources to the national level in Africa. As a result, few benefits "trickle down" to the rural and urban poor. Additionally, many African nations do not possess the human, administrative or physical infrastructures necessary to transform the concept of "trickle down" into a reality. Traditional strategies often ignore the fact that the community level in the African environment is the focal point of life within the entire African framework. The "trickle" in the African setting, under ideal conditions, only reaches the top 25 to 40 percent of the African population--or those least in need of assistance.[17]

Likewise, these approaches have often encouraged the development of urban areas over rural areas--neglecting the fact that at least 70 percent of the African population lives in rural settings. Such approaches have also fostered the development of large urban-based hotels, convention centers and dam projects at the expense of agricultural projects. They are often tied to short-term policy prescriptions of donor nations, which change far too often to nurture or complement long-term development.

Today, there is an increased interest in Africa and its economy as the international community responds to the urgency posed by the latest drought and famine. Many development specialists are already attempting to press home the fact that a much longer and larger commitment to Africa's economic malaise must be made by major donors. Jack Shepherd, a senior associate at the Carnegie Endowment for International Peace observes:

> While the large-scale outpouring of emergency food to Africa is a worthwhile and dramatic first step toward saving lives, it is merely a first step. Alone it will not save the continent's stricken people, nor break the cycle of their dependency on imported food for survival. The crucial next step, which must be taken now, is to determine what long-term development aid will best lay the groundwork for the recovery of Africa's environment and agriculture.[18]

"Bilateral U.S. economic aid to all countries of black Africa for FY 1985 totals roughly $1 billion" with $265 million provided in emergency food relief. By contrast, most of the 1986 foreign aid budget request of $14.77 billion, is concentrated among Israel, Egypt, Pakistan, the Philippines, El Salvador and Guatemala with Israel and Egypt getting almost half: $2.3 billion in economic and military aid to Egypt and $3 billion for Israel. Congress was, however, asked for a supplemental 1985 appropriation of $235 million in famine relief for Africa. In the meantime, the World Bank's soft-loan facility, the International Development Association and the African and Asian Development Banks have been served notice that U.S. support may end after FY 1986. Yet, according to Shepherd during 1985, emergency food aid is necessary to stabilize Africa.[19]

At the same time, however, the United States must help create minimum conditions for the recovery of Africa's land, agriculture and people, otherwise the continent "may well become a political, social and economic nightmare by the end of the decade."[20]

The elements of an appropriate response to Africa's needs are in place with the Administration's introduction of its Economic Policy

Initiative (EPI), a proposed $500 million five-year program (with $75 million to be available in 1985) providing "flexible, fast dispersing monies for selected governments willing to undertake comprehensive economic policy reform."[21] The World Bank has recently undertaken a similar commitment in launching its $1.1 billion Special Facility for Sub-Saharan Africa (SFSSA) aimed at helping only those African countries "that agree to adopt economic policies that encourage private business, assist farming and generally eliminate bureaucracy and waste."[22]

The U.S. foreign assistance community is engaged in a lengthy and critical dialogue regarding the delivery of foreign assistance to Africa. The African Development Foundation (ADF) is an outgrowth of this dialogue. The Foundation is not a panacea; however, it is a step in the right direction.

ADF is a laboratory that allows the United States to identify successful indigenously designed African development models and determine how best to provide assistance in a manner that achieves U.S. objectives and, at the same time, preserves the integrity and self-determination ethos of the Africans in their quest to create and maintain healthy, stable economies.

ADF represents a vital element in the U. S. response to Africa's economic crisis--one that has its roots in the re-examination of foreign assistance, and focuses on the greater efficacy of small-scale development projects based on initiative and active participation at the local urban or village levels. This strategy, which has worked so well in Latin America and the Caribbean through the work of the Inter-American Foundation, would seem ideally suited to addressing fundamental problems in Africa, which cry out for solutions. A basic assumption of the ADF approach is that it is the African people at the local community level who are best able to determine their needs and priorities, as well as have the will--if given the means--to tackle their own problems. And ultimately, this approach to development will strengthen the infrastructures underpinning the process of nation-building. Moreover, given the likelihood of little significant increase in U.S. assistance, and allocations to Africa in the foreseeable future, the ADF approach may represent the most cost-effective institutional strategy for channelling effective assistance delivery.

ADF PHILOSOPHY

More than in any other part of the developing world, the 400 million inhabitants of Africa have suffered from the realities, legacies and vestiges of colonialism. European powers--without regard or respect for ethnic, tribal or linguistic diversity indigenous to the African continent--superimposed alien economic, governmental and social systems on African societies. The imposition of these alien systems served to deter African development.

The colonial exodus from Africa over the past 25 years has left Africans with the herculean tasks of forging new nations; developing appropriate economic, governmental and social systems; and facing the complexities of self-government at a time when over 80 percent or 320 million people on the continent are living in a state of poverty. (More than 160 million of this group live in absolute poverty and are often referred to as the "poorest of the poor.") Colonialism further served to widen the gap between Africa's elite and its poor majority. Thus, the inclusion of the poor majority is the most essential and critical element in launching an appropriately designed development plan for Africa.

ADF was created by the U.S. Congress to bring development opportunities directly to the doorstep of Africa's poor and their indigenous organizations. African villagers, the urban poor and their local institutions are the African Development Foundation's primary constituents. As a first priority, ADF intends to maximize opportunities to fund directly those organizations that are governed and managed by the poor. In the absence of such organizations, ADF provides assistance (grants, loans and loan guarantees) to other local organizations committed to serving the poor. These organizations must demonstrate--through program initiatives, employment practices and the participation by the poor in project design and implementation strategies--their commitment to representing the needs and aspirations of impoverished people. Small self-help projects, addressing human infrastructure development with maintenance-of-effort components are given preferential funding consideration. Applied research projects that examine root causes of poverty and contribute significantly to the body of knowledge available on African development also receive special consideration. ADF strives to forge a constructive and appropriate relationship--built on mutual trust and respect--with organizations controlled by and/or representing the needs and aspirations of Africa's poor.

ADF's approach to development assistance is straightforward. It is both expeditious and protects the self-determination and self-help nature of development at the local level. This approach not only facilitates the process of learning from the delivery of assistance directly to the grassroots level, it is consistent with the ADF mandate to disseminate knowledge.

Finally, ADF pays particular attention to working collaboratively with African governments, other donor organizations, and U.S. assistance agencies in its attempt to maximize its limited resources.

ADF MANDATE

> In statistical terms, Africa is the world's poorest continent. Of the globe's 29 poorest countries, 18 are in Africa. These countries have a per capita income of less than $150 per year. Some, in fact, such as Mali, Upper Volta, and Rwanda, have per capita incomes of less than $100. As low as these figures are, they do not accurately reflect the depth and pervasiveness of the poverty that exists in Africa. Skewed income patterns within many

> African countries leave the vast majority of their populations below the average per capita income line. In countries such as Chad, Benin, Malawi, and Tanzania, for example, this poor majority constitutes over 90 percent of the population.
>
> Ten thousand dollars provided to an African community in support of a development initiative that it has taken will have a far more beneficial impact in many instances than a $10 million loan to many a self-interested regime. Far greater flexibility is required than currently exists in our official development assistance program. We need the flexibility of the African Development Foundation to respond quickly and appropriately to initiatives taken by groups which traditionally have been at the margins of society.[23]
>
> Senator Edward Kennedy

With the passage of Title V of Public Law 96-533 (the African Development Foundation Act of 1980), the visions and aspirations of those advocating the creation of an African Development Foundation became a reality (See Appendix A). As early as 1975, USAID planners identified the critical need for the development of an ADF-type foundation. Thus, between 1975 and 1984, advocates for a more grassroots assistance approach to African development became involved and worked with USAID planners and Congress to achieve the goal of creating the African Development Foundation.[24] This section presents a clear and concise discussion of the gaps identified during Congressional hearings and ADF's responses to these gaps (voids) in development assistance to Africa. A copy of ADF's enabling legislation is included in Appendix A. A section-by-section description and analysis of the provisions of Title V (the African Development Foundation Act of 1980) of Public Law 96-533 is included in Appendix B.

From Gap to Opportunity

> While our principal aid mechanisms, including the Agency for International Development (AID) can deliver large amounts of funds to African countries, they have not demonstrated the agility required to deliver small amounts rapidly to the large numbers of development initiatives that are undertaken in Africa's village and urban communities.

> The African Development Foundation will provide the mechanism for the delivery of this type of assistance. It will have the capacity to reach poor communities directly and in amounts that are appropriate for optimum use by local groups and organizations. Its funding will be responsive to the needs expressed and activities undertaken by the African poor themselves in various local settings. ADF assistance is to be directed to all sectoral areas, including small scale agricultural and irrigation development, housing, schools, and community assistance.[25]
>
> Congressman William H. Gray III

In 1975, representatives from the long-term planning unit of AID's Africa Bureau, the Inter-American Foundation and advocacy organizations concerned with African development met and initiated the process that led to the creation of the ADF. They began by identifying major gaps in development assistance targeted to Africa. These identified gaps and areas of need were used in Congressional hearings as the major justifications for creating ADF. Such gaps and the resultant ADF responses served as guidelines in the preparation of ADF's Five-Year Plan.

Included among these gaps or voids are the following:

- Traditional service providers often take up to two years to provide much-needed assistance.[26]
- Traditional development agencies generally do not fund projects under $2 million.[27]
- Traditional development assistance agencies are large, rigid and highly centralized entities. They are designed to provide assistance to the central governments of African countries, and, therefore, normally assist capital intensive projects. The structure and funding priorities of such organizations favor national projects over local projects and generally do not address the development needs at the local level.[28]
- Lacking the infrastructure necessary to provide development opportunities to the community level and to the poor, many African countries cannot ensure that needed services "trickle down" to individual citizens.[29]
- A lack of research on and analysis of indigenous grassroots development has left local resources and capabilities untapped.[30]
- Current voids in the research on development assistance to Africa include a lack of knowledge concerning how to target development assistance to the local level in Africa, a lack of knowledge on successful indigenous development approaches, and their replication, as well as a lack of knowledge on how to respond to self-help development.

- Traditional development assistance agencies generally concentrate their resources on national governments and capital intensive projects in urban areas, despite the fact that 70 percent of Africa's intended beneficiaries reside in rural areas.
- Development assistance must be targeted to the specific local need.
- Traditional assistance programs are inappropriately structured and inadequate to meet the severity of Africa's development needs.
- Traditional U.S. approaches are tied to the short-term policy goals of the administration in power. Changes in administrations translate into changes in foreign assistance policies and priorities.
- Government agencies, by their very mandates, are not risk-takers.

Thus, there were obvious "targets of opportunity" resulting from the gaps in the traditional delivery systems providing development assistance to Africa. The proponents of a more targeted, grassroots paradigm for rendering much-needed development assistance responded with the creation of the Foundation. ADF, utilizing the "gaps" in a positive manner, structures its activities to begin to fill the voids normally associated with more traditional approaches. The Foundation's approach is outlined in the following narrative description.

The ADF Approach

Response Time. ADF normally takes up to 90 working days from receipt of a complete application for funding to respond. This timely response is critical given the exigencies of the African people. Chronic food shortages and the worsening economic crisis require immediate and timely assistance.

Grant Size. Most grassroots development projects require only small amounts of funding. ADF provides grants, loans and loan guarantees directly to indigenous organizations at the grassroots level. The maximum amount awarded by ADF to a project is $250,000. The average grant award is $70,000. The structure and funding approach of ADF favors rural and urban community, labor-intensive self-help development projects--designed to ensure that development benefits reach the poor--over large, nationally or regionally focused, capital intensive projects.

Empowering the Poor. ADF was created to provide assistance to more local level development initiatives. Thus, the Foundation focuses on expanding the participatory and beneficiary roles of the poor in these initiatives. These procedures and criteria are designed to be sensitive to the fact that many African nations need human, physical and/or organizational infrastructures adequate or appropriate for targeting development opportunities to the local community level within access to the poor. Such problems render most African countries unable to ensure that the benefits of traditional development assistance "trickle down" to individuals at the local level. During the 1977 hearings to create ADF, it was estimated that under optimum conditions, U.S. development assistance reaches the top 25 to 40 percent of any African country's economic strata.[31]

Research Need. ADF is mandated to provide support to developmental research activities of Africans and to assist with the dissemination of information and research findings, generated by indigenous Africans, to appropriate African audiences. It also provides information on its projects to the U.S. public and the traditional development community, encourages grantees to develop their own evaluation strategies and includes the poor in the implementation of those strategies.

ADF assisted research must focus on issues/problems relevant to self-help development at the community level and the role of the poor in development.

Self-help. ADF promotes self-help development. In order to guarantee the integrity and true character of local self-help initiatives, ADF does not provide direct technical assistance. Recipients of ADF support identify their own TA and other assistance needs. ADF provides funding for the recipient to procure needed assistance and facilitates that process.

Targeting Assistance. A basic assumption underlying ADF's mandate is the belief that self-help development strategies, designed at the local level, work best. The Foundation targets its assistance to small, self-help initiatives at the urban community and village levels in Africa. ADF employs funding procedures and criteria that ensure targeting resources to the local level.

Priority is also given to assisting labor-intensive intiatives in which the urban and rural poor maximally participate and benefit.

ADF's Relationship to Short-Term U.S. Foreign Assistance Policies. U.S. development assistance is often tied to short-term policy goals. As such goals are changed, the nature of the assistance changes.[32] ADF, on the other hand, as a result of its legislative mandate, is exempt from short-term policy goals. It is, however, designed to complement the activities of other U.S. development assistance agencies.

Promoting Innovation. Traditional development assistance organizations shy away from supporting projects and organizations that present a sizable amount of risk for development. Yet such projects and groups often represent the needed innovation and creativity to foster growth, development and change. ADF, recognizing this reality and the inherent dynamic of the grassroots approach, provides assistance to programs that build on this strategy.

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PART II

AFRICAN DEVELOPMENT FOUNDATION

Status Report and Plan

ADF ORGANIZATIONAL STRUCTURE

Part II begins with a status report describing ADF's current organizational structure and operations (see Figure II-1). This status report is followed by the presentations of the Foundation's Long-Range Plan.

Board of Directors

The management of the Foundation is vested by law in the seven-member Board of Directors (the Board) appointed by the President of the United States with the advice and consent of the Senate. The Board establishes policy guidelines for the Foundation; monitors the activities of the Foundation; develops annual performance goals; and possesses the final decision-making power over the organizational structure and project funding decisions. The Board also recruits, selects and appoints the members of the Advisory Council and the Foundation's President. The permanent committees of the Board are the Intergovernmental and External Relations, Program Planning, and Procurement and Budget Committees.

Advisory Council

The Advisory Council, with representation from the African development assistance community and Africans experienced in implementing self-help development initiatives at the local level, was established in FY 1985 to counsel the Board on the scope and direction of ADF's major activities. The Council meets at least annually with the Board to review ADF's major policy thrusts.

Office of the President/Vice President

The President of ADF is responsible for the day-to-day operations of the Foundation. There are six major divisions within the Office of the President: Operations, Policy Planning, Quality Control, General Counsel, Public Affairs, and Legislative Affairs. The Office of the President is specifically responsible for designing and implementing rules and regulations appropriate for managing and coordinating the operations of the Foundation; representing the Foundation to the external community; educating the different sectors of the public regarding ADF's activities and self-help development in Africa through seminars, journals and newsletters; coordinating the implementation of the Long-Range Plan; controlling the quality of ADF operations; and providing legal advice, opinions and services to the Board of Directors.

Program Review Committee(PRC). The Program Review Committee is ADF's internal grant-making body. The Vice President of ADF serves as chairperson of this inter-office Committee. Membership includes the President; General Counsel; Directors of Administration/Finance, Programs/Field Operations and Research/Evaluation; and the Budget Officer. The Committee has responsibility for assessing (a) project accountability, that is, seeing to it that projects benefit the poor majority; (b) the extent to which goals are obtainable and measurable; (c) the clarity, logic and feasibility of the plan of action; and (d) the fiscal and management capabilities of applicants.

Office of Administration and Finance

The Office of Administration and Finance is responsible for the management of the administrative, budgetary, general, financial and personnel activities of the Foundation.

Office of Program and Field Operations

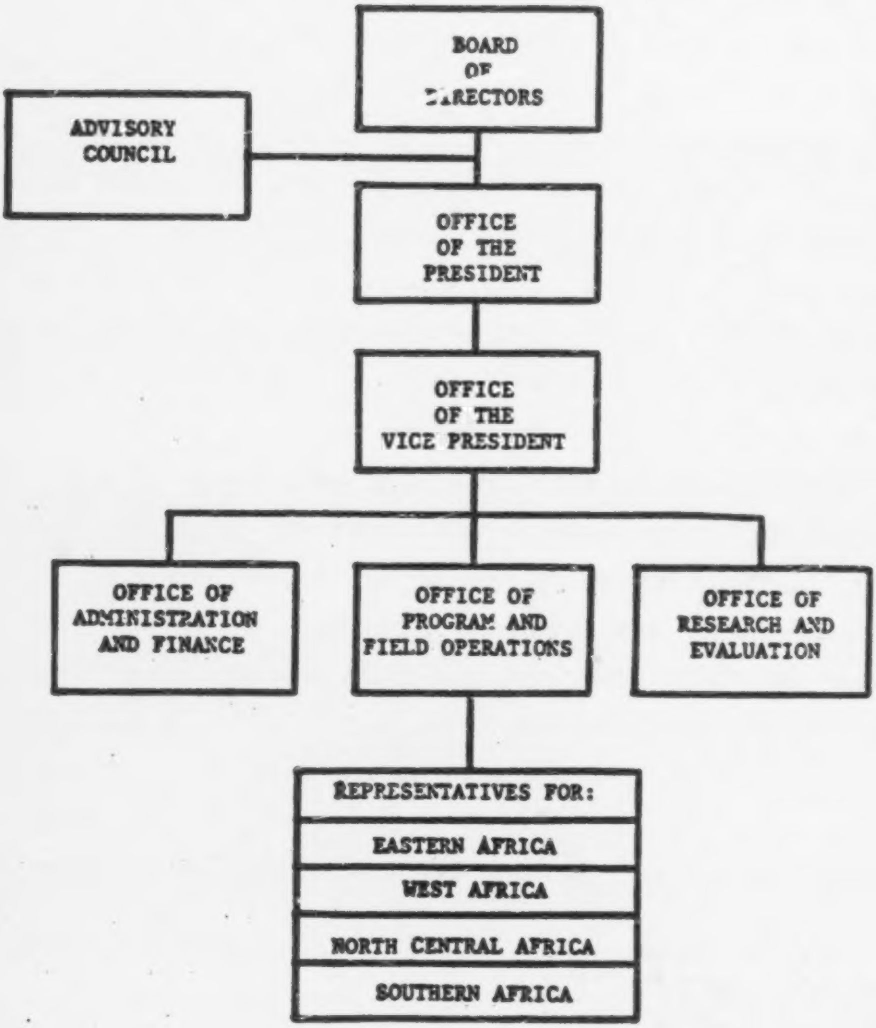
The Office of Program and Field Operations is responsible for receiving, reviewing, prioritizing and preparing the proposals of indigenous African organizations for presentation to the Program Review Committee. This Office is also responsible for monitoring the activities of ADF assisted projects.

Office of Research and Evaluation

The Office of Research and Evaluation is responsible for periodic project evaluations, documenting knowledge gained from ADF-supported activities and disseminating information gathered to ADF's President and staff. This Office will pay special attention to developing impact (effectiveness) assessment tools, thus enabling ADF to document the impacts of its assistance on its intended beneficiaries in Africa.

Figure II-1

Organizational Chart


BOARD OF DIRECTORS
ADVISORY COUNCIL
OFFICE OF THE PRESIDENT
OFFICE OF THE VICE PRESIDENT
OFFICE OF ADMINISTRATION AND FINANCE
OFFICE OF PROGRAM AND FIELD OPERATIONS
OFFICE OF RESEARCH AND EVALUATION
REPRESENTATIVES FOR:
EASTERN AFRICA
WEST AFRICA
NORTH CENTRAL AFRICA
SOUTHERN AFRICA

ADF OPERATIONS

FY 1984

The ADF Board of Directors was appointed by the President and confirmed by the Senate between October 1983 and February 1984; thus, the first full year of operation for the African Development Foundation was FY 1984. The Board met for the first time in October 1983. After a false start, characterized by the selection and subsequent resignation of the Foundation's first president and vice president, ADF embarked on its current course of accomplishment, growth and consolidation with the appointment of a new and seasoned leadership team in the summer of 1984. Under the direction of this new leadership, a core staff of 20 professionals was recruited and assembled. These individuals possess 155 person years of African and/or development experience.

The Foundation's most significant accomplishment during that first fiscal year was the evaluation and approval of 11 self-help projects totaling $838,000 (over 35 projects were actually reviewed). These grants supported local development organizations of the rural poor in Niger and Mali in the Sahel; Liberia in West Africa; and Lesotho, Botswana and Zambia in Southern Africa.

ADF was able to determine the major priority areas of assistance based on the large initial intake of project proposals from indigenous African self-help organizations. These areas of perceived priority were:

- Food Production
- Income Generation
- Energy
- Small Business
- Management/Capacity Building
- Education/Training
- Health Care
- Community Development

Included among the seasoned professional staff at ADF are four permanent Foundation Representatives. They were given regional assignments matching their language skills, past experiences, and functional specialties with the predominant characteristics of the region. The regions identified were North Central Africa, West Africa, East Africa, and Southern Africa.

A constructive, yet rigorous project review procedure was developed and has proven particularly effective. The Program Review Committee (PRC) was formed and established a project rating system requiring individual member assessments based on the following standard criteria and values:

Criteria	Point Value
Need for project and level of beneficiary participation	20
Project benefits to the poor majority; extent to which goals are obtainable and measurable	30
Clear, logical and realistic plan of action	25
Grantee fiscal and management capability	15
Grantee ability to meet reporting requirements	10
	100

Following the PRC's review, projects that receive a favorable rating (70 points and above) are referred to the Program Committee of the Board of Directors for final approval.

Notwithstanding the excitement generated by the 11 initial projects supported by ADF, the formulation and adoption of effective policies and procedures to guide Foundation operations through subsequent years have been the most crucial accomplishments of ADF's first operational year.

FY 1985

ADF entered FY 1985 with $6.8 million available for obligation, including $4.02 million of the $4.5 million no-year funds that were transferred from the Sahel account to ADF in September 1984. The first round of an internal budgeting exercise, which began by costing out office level objectives, was completed in November when the Foundation's Board of Directors approved the following budget:

Amount ($000)	Percent	Purpose
$4,765	70%	Grants
1,079	16	Program Support
941	14	Administrative Overhead
$6,785	100%	Total Board Approved FY 85 Budget

However, the Administration has proposed that $2.3 million of this amount be deferred until FY 1986. This action (Deferral Report D85-40) was reported to the Congress on February 4, 1985. Consequently, ADF has scaled back its original FY 1985 grant-making plans and administrative overhead and arrived at the revised budget summarized as follows:

Amount ($000)	Percent	Purpose
$2,600	58%	Grants
1,046	23	Program Support
854	19	Administrative Overhead
$4,500	100%	Current FY 85 Budget

Based on this revised budget, the Foundation intends to fund 40 new projects in FY 1985, averaging $70,000 per project. The current staff strength of 20 full-time equivalents will be maintained.

There have been several other significant activities and accomplishments by the Foundation in FY 1985:

- An ADF brochure was produced, and its dissemination has resulted in very broad awareness of the Foundation among grassroots organizations in Africa.
- The Foundation's Board of Directors has made several visits to Africa, including the countries of Liberia, Togo, Kenya, Lesotho and Botswana, to meet with leaders and experts in the development field and to help explain to policymakers and government officials the purpose of ADF as well as how it can assist in facilitating their development aspirations.
- A long-range (5-year) planning process, based on input from all of ADF's major constituencies and on general analysis of the potential impact of ADF-type grassroots level funding, has been developed.
- Competent and committed permanent staff with over 155 years of cumulative African and/or development experience has been assembled. Field visits to review new proposals and monitor existing projects have been undertaken by staff.

- The Foundation has developed administrative systems--personnel, fiscal, and project monitoring--required for efficient stewardship of public funds. Given ADF's small size, reimbursable agreements have been signed with other federal agencies for computer services related to the above activities. Public accounting firms in Africa have been contracted to audit each new ADF project and provide technical assistance to grantees, where necessary.
- Fact-finding activities--prerequisites to launching an ADF loan program as envisioned in the Foundation's enabling legislation--have been initiated.

To date, ADF has received over $27 million in requests for loans and grants from community and village level organizations in 32 African countries. These organizations perceive ADF as a welcomed and appropriately structured commitment on the part of the U.S. Government to channel assistance directly to the local level. These requests originate from all regions of the African continent and reflect such basic areas of human need as increased food production and improved preventive health care. In addition to the $838,000 approved for projects in FY 1984, the ADF Program Review Committee has given positive ratings to 28 additional projects totaling $2,038,017 during the first quarter of FY 1985.

FIVE-YEAR PLAN

ADF initiated its strategic (long-range) planning process in August, 1984. The major tasks and accompanying steps taken to prepare the Plan include: (a) analyzing and discerning the intent of Congress; (b) reviewing and refining the ADF philosophy statement; (c) conducting informal interviews with persons knowledgeable about the formative operations of the Foundation; (d) developing, testing and utilizing varied instruments to facilitate the substantive input of ADF's Board of Directors and staff in the planning process; (e) analyzing the data obtain through the instruments and informal interviews with those associated with the refinement of the ADF concept for inclusion in the Plan; (f) preparing a draft of the Long-Range Plan; (g) presenting the draft to the Board and staff for their final review, comments and amendments (where appropriate); (h) conducting a field test of the concepts and definitions critical to the development and implementation of the Plan; and (i) preparing the final report--the Long-Range Plan for FY 1986-1990.

The content of the Plan is based largely on ideas and recommendations obtained through interviews and group meetings with members of the Foundation's Board of Directors, management and program staff. It is a product of the total Foundation and reflects a consensus on the programmatic thrusts that should be undertaken over the next five years.

The purpose the Five-Year Plan is to provide general programmatic direction to the work of the Foundation so that it can more effectively and efficiently achieve its primary goals and fulfill its congressional mandate. The Plan, therefore, outlines long-range goals and programmatic objectives for the Foundation, and the long-range strategies and tasks to be undertaken in order to accomplish those goals and objectives.

Goals and Objectives

The Foundation's primary goals relate directly to its mandated purposes, which include:

- Strengthening "the bonds of friendship and understanding between the people of Africa and the United States";
- Supporting "self-help activities at the local level designed to enlarge opportunities for community development";
- Encouraging and expanding opportunities for indigenous Africans, particularly the poor, to participate in and benefit from development processes; and
- Encouraging the "establishment and growth of development institutions," controlled by indigenous people, that respond to the needs and aspirations of Africa's poor, in the specific countries where the organizations originate.

The Long-Range Plan emanates from the following program objectives:

- To foster the creation and growth of local development institutions and to provide support to self-help development efforts;

- To provide support to development research initiatives designed and implemented by Africans and the transfer of development resources, expertise, and knowledge within Africa;
- To encourage the development of self-evaluation techniques by participants in projects supported through the Foundation for the purpose of transferring experience gained in such projects to similar development activities;
- To support and encourage the procurement of indigenous African technical or other assistance as is deemed appropriate by recipients of ADF's support; and
- To communicate to the U.S. public, and multilateral development institutions insights gained from the implementation of African self-help development projects assisted through the Foundation.

Actions that must be undertaken by the Foundation in order to successfully achieve each objective are divided into two categories--strategies and tasks. Long-range strategies embody the scope of work that must be accomplished in order to achieve the identified objectives. Long-range tasks are those activities that must be completed in order to achieve each strategy.

The long-range strategies are categorized as program support, knowledge transfer, private sector collaboration, research, evaluation, project monitoring, field support and management systems. Each is defined as follows:

- Program Support - actions required to initiate and sustain the major programmatic thrust of each objective;
- Knowledge Transfer - actions required to facilitate information sharing;
- Private Sector Collaboration - actions required to promote and maintain functional relationships between the U.S. and African private sectors and organizations and initiatives funded through ADF;
- Research - actions taken to focus ADF's resources on in-house and assisted investigations of issues critical to African self-help development and the role of the poor in development;
- Evaluation - actions required to assess the effectiveness and impact of ADF assistance and supported organizations and initiatives;

- Project Monitoring - actions required to provide adequate administrative oversight of ADF-supported activities and organizations;
- Field Support - actions required to establish and maintain on-site representation of ADF in the countries and grassroots communities being impacted by ADF-funded activities and organizations;
- Management Systems - actions required to review and refine management operations to complement the growth and development of the Foundation during the period covered under the Plan.

Implementation of Plan

Implementation of the Plan will occur during the period FY 1986-1990. The scope of work to be completed during the first year of implementation includes the review and refinement of those management systems and administrative policies and procedures that directly impact the effectiveness and direction of ADF's organizational and program operations. This Plan includes planning and initiating activities that will result in the creation of linkages and relationships between ADF and its various constituencies.

During the second year of implementation (FY 1987), ADF's leadership and staff will be required to accomplish activities that build on actions taken during FY 1986, as well as those that result in strengthening the effectiveness of ADF in its efforts to stimulate and foster cooperative relationships.

The Plan's third year of implementation (FY 1988) will be one of evaluation and reassessment. ADF's staff will be required to design and implement management review and impact evaluation activities, in order to determine whether or not the Plan is being effectively implemented and assess the impact of ADF on the grassroots organizations and initiatives assisted. Special attention will be paid to assessing the impacts of ADF assistance on the role of the poor in grassroots development activities through the Foundation. The results of the proposed evaluation activities will be used to amend and refine the Plan.

The final two years of implementation (FY 1989 and 1990) will focus on expanding the capacity of ADF to offer multiple types of financial assistance to eligible and appropriate African organizations and initiatives. ADF's staff and management will work during this period of implementation to create a loan and loan guarantee program capable of responding to the varied fiscal needs of ADF-supported projects and activities. ADF's efforts during this period will also concentrate on developing and maintaining cooperative linkages between the African private sector and ADF-supported organizations and initiatives.

Objective A: To foster the creation and growth of local development institutions and provide support to self-help development

This is the primary objective presented in the Long-Range Plan. Most of ADF's financial and human resources are allocated to strategies and accompanying tasks put forth to achieve this objective. Eight broad strategy areas are proposed:

- Providing direct support (grants, loans and loan guarantees) in an effective, appropriate and efficient manner, to local African development institutions and community self-help projects. The implementation of this strategy requires ADF to evaluate and fine-tune funding procedures; and to research, design and implement a loan and loan guarantee program.
- Transferring knowledge gained from ADF-supported activities to audiences including the development assistance community, the U.S. public, the academic community, Africans and U.S. and international policymakers. The types of knowledge to be disseminated will correspond, to the extent possible, to the identified issues and skills critical to grassroots development in Africa and the role of the poor in that development.
- Informing the U.S. private sector about ADF, the problems facing Africa's poor, and the relationship(s) of problems facing Africa and its poor to the U.S. private sector's long-term objectives and interests.
- Stimulating and nurturing linkages between the African private sector and African community and village development institutions that encourage participation of the poor in African development strategies.
- Conducting research on questions, issues and problems that impact local African institution building and self-help development models. The strategy is designed to serve as a guide for the development and implementation of ADF's research activities.

- Conducting evaluation activities that are designed to document the effectiveness and impacts of ADF-supported program efforts, as well as the processes used in the development, management, and implementation of those efforts. This strategy is an attempt to increase ADF's knowledge of the experience gained and lessons learned from ADF-assisted projects.

- Developing and implementing a management information system, thus enhancing ADF's capacity to better oversee the effective use of its assistance by funded sites.

- Reviewing and refining ADF's management operations in order to foster the creation and growth of indigenous grassroots institutions and provide support to self-help initiatives; and enhancing existing organizational management systems in order to ensure the effective administration of grants, loans and loan guarantees.

Implementation. The Program Review Committee, with membership from the senior staff of the Offices of the President, Administration and Finance, Program and Field Operations, and Research and Evaluation will work collaboratively with the Office of the President to refine procedures and criteria critical to the achievement of this objective.

Time frame(s). Strategies presented to guide program support activities, project selection procedures and criteria, U.S. private sector collaborations, African private sector collaboration, ADF-implemented research, knowledge transfer activities and management review and refinement activities will be initiated in FY 1986. ADF's loan and loan guarantee program will be researched and tested between FY 1986 and FY 1988. However, the fully operational loan and loan guarantee program will be implemented between FY 1989 and FY 1990.

OBJECTIVE A

OBJECTIVE A: **To foster the creation and growth of local development institutions and provide support to self-help development**

STRATEGY AREA	TASK	FISCAL YEAR INITIATED
PROGRAM SUPPORT. Provide direct support (grants, loans and loan guarantees) in an effective, appropriate and efficient manner to local African development institutions and community self-help projects. Implementation of this strategy requires ADF (a) to review and fine-tune funding procedures; and (b) to research, design and implement the loan and loan guarantee program.	Reviewing and refining procedures and criteria	
	1. Review and refine existing project selection procedures, criteria and accompanying documents to ensure that funding priority is given to projects in which the poor are maximally involved. Information gleaned from these projects is to be used to develop a data base on the effectiveness of local leadership and the capacities for institution building in Africa.	1986
	2. Review and refine existing project selection procedures, criteria and accompanying instruments in order to increase ADF's capacity to give priority in funding to projects that include self-evaluation components.	1986

OBJECTIVE A: To foster the creation and growth of local development institutions and provide support to self-help development

STRATEGY AREA	TASK	FISCAL YEAR INITIATED
	3. Review and refine specific categories of proposals and projects ADF is most frequently asked to assist. The refined categories will be included in ADF's brochures.	1986
	4. Review and refine existing procedures employed to deliver financial assistance (grants, loans and loan guarantees) to local self-help initiatives and organizations.	1986 (grants); and 1989-90 (loan/loan guarantees)
	5. Establish an outreach process that will enable ADF to identify, support and share information with local development organizations--normally overlooked by traditional donors and considered to be too unsophisticated and too new to qualify for traditional donor assistance. The aim of this item is to bring ADF's resources within the reach of the Foundation's mandated constituency --the African poor.	1986

OBJECTIVE A: **To foster the creation and growth of local development institutions and provide support to self-help development**

STRATEGY AREA	TASK	FISCAL YEAR INITIATED
	6. Review and refine ADF project selection criteria in order to effectively fund self-help initiatives in Africa, thus offering ADF an opportunity to support the development of innovative linkages between host country financial institutions and the urban and rural poor. This task when implemented, will increase the access of the African poor to financial resources needed to carry out short- and long-term development initiatives.	1987
	7. Review and refine ADF project selection criteria to ensure that support is provided to for profit initiatives in which sole ownership rests with Africa's poor.	1986

OBJECTIVE A: To foster the creation and growth of local development institutions and provide support to self-help development

STRATEGY AREA	TASK	FISCAL YEAR INITIATED
	8. Review and refine ADF project selection criteria to ensure that support is provided to high risk self-help projects that afford ADF an opportunity to identify the most appropriate and effective ways to deliver assistance to the persons these projects are designed to serve.	1986
	9. Review and refine project selection criteria to ensure that ADF provides support to training initiatives at the local level thus providing ADF's African constituency with an opportunity to obtain training in organizational and human development.	1986
	10. Review and refine ADF project selection procedures and criteria to provide support to self-help initiatives that maximize the use of local expertise.	1986

OBJECTIVE A: To foster the creation and growth of local development institutions and provide support to self-help development

STRATEGY AREA	TASK	FISCAL YEAR INITIATED
	11. Review and refine ADF country selection criteria to ensure the relevance and appropriateness in ADF's response to request for assistance. This review and refinement will also gauge ADF's expansion program.	1986
	Implementing the loan and loan guarantee component	
	12. Study and learn about the experiences of other development assistance agencies that administer loan and/or loan guarantee programs. Pay special attention to the extent to which the experiences of other agencies can be generalized to ADF in the African context. Special efforts will be taken to examine, through site visits, programs supported by the Inter-American Foundation (IAF) and the U.S. Agency for International Development (U.S.A.I.D.).	1986-1988

OBJECTIVE A: **To foster the creation and growth of local development institutions and provide support to self-help development**

STRATEGY AREA	TASK	FISCAL YEAR INITIATED
	Implementing the loan and loan guarantee component	
	13. Implement the loan and loan guarantee program at ADF.	1989-1990
	14. Enter into collaborative arrangements/agreements with indigenous development banks and other commercial establishments thus encouraging the creation of lending opportunities within the reach of grass-roots institutions and initiatives eligible for ADF support.	1989-1990
	15. Create incentives, using grants and other appropriate arrangements, for indigenous financial institutions to make funds available to promising low income entrepreneurs through loans at adjusted interest rates below prime.	1986

OBJECTIVE A: **To foster the creation and growth of local development institutions and provide support to self-help development**

STRATEGY AREA	TASK	FISCAL YEAR INITIATED
	Implementing the loan and loan guarantee component	
	16. Support projects that foster traditional organizational and human institutional development through training activities.	1986
	17. Support projects that maximize the use of local expert power.	1986
	18. Develop new country entry procedures.	1986

OBJECTIVE A: To foster the creation and growth of local development institutions and provide support to self-help development

STRATEGY AREA		TASK	FISCAL YEAR INITIATED
KNOWLEDGE TRANSFER. Transfer knowledge gained from ADF supported activities to audiences including the development assistance community, the American public, the academic community, Africans and U.S. and international policymakers. The types of knowledge to be disseminated will correspond, to the extent possible, to the identified issues, skills and polemics critical to grassroots development in Africa and the role of the poor in that development.	1.	Identify and develop appropriate mechanisms for transferring information by type of audience (development assistance community, American public, academic commuinity, Africans and U.S. and international policymakers).	1986-1987
	2.	Develop a directory of organizations serving the poor in Africa. The directory will be maintained and updated annually at ADF's headquarters. It will be shared with appropriate audiences.	1986-1987
	3.	Focus on transferring information obtained from funded projects to similar initiatives and organizations through the use of films, site visits, cassettes and manuals.	1987
	4.	Disseminate project findings throughout Africa on the loan and loan guarantee programs through professional journals and traditional media.	1990

OBJECTIVE A: To foster the creation and growth of local development institutions and provide support to self-help development

STRATEGY AREA	TASK	FISCAL YEAR INITIATED
	5. Disseminate through journals and symposiums information on successful linkages forged between African financial institutions, local development organizations, and the poor.	1989-1990

OBJECTIVE A: To foster the creation and growth of local development institutions and provide support to self-help development

STRATEGY AREA	TASK	FISCAL YEAR INITIATED
U.S. PRIVATE SECTOR COLLABORATION Inform the U.S. private sector about ADF, the problems facing the poor in Africa, and relationship of these problems to the private sector's long term objectives and interests. The U.S. private sector includes businesses and philanthropic (non-profit, private sector) organizations.	1. Develop criteria to guarantee that private sector support provided to ADF is consistent with ADF's mandate and Congressional intent.	1986
	2. Design and implement an ADF-U.S. private sector outreach program. Pay special attention to the identification of and outreach to all U.S. businesses involved in Africa.	1986-1987
	3. Design and implement an orientation program for the U.S. private sector, highlighting (a) ADF's mission and approach to development; (b) the problems facing Africans--particularly the poor--in their quest to develop; and (c) the identification of ways in which the ADF and the U.S. private sector can collaboratively work to assist development and institution building at the local level in Africa.	1986-1987

OBJECTIVE A: **To foster the creation and growth of local development institutions and provide support to self-help development**

STRATEGY AREA	TASK	FISCAL YEAR INITIATED
	4. Encourage U.S. private sector to support research aimed at facilitating the transfer of information and carry out special projects.	1986
	5. Use private sector support to conduct research on marketing African crafts.	1987
	6. Use American private sector contributions to support small scale industry and prototype development in Africa.	1988

OBJECTIVE A: **To foster the creation and growth of local development institutions and provide support to self-help development**

STRATEGY AREA	TASK	FISCAL YEAR INITIATED
AFRICAN PRIVATE SECTOR COLLABORATION **Stimulate and nurture linkages between the African private sector and African urban community and village development institutions which encourage the substantive participation of the poor in African development strategies.**	1. Survey the indigenous private sector in countries where ADF operates to identify the critical issues associated with the private sector and its relationship(s) to local development institutions and the African poor. This can be done through the country profiles.	1986-1987
	2. Use the findings to develop initiatives relevant to strengthening the African private sector and solidifying positive linkages between the African private sector, local development institutions and the poor.	1987-1988
	3. Review and refine project selection procedures and criteria to give priority in funding to self-help projects that provide for the creation and/or expansion of the roles of the poor within African development strategies.	1986
	4. Support projects that provide an opportunity for collaboration between the grantees, local financial institutions and development banks.	1988

OBJECTIVE A: **To foster the creation and growth of local development institutions and provide support to self-help development**

STRATEGY AREA	TASK	FISCAL YEAR INITIATED
ADF IMPLEMENTED RESEARCH Conduct research on questions, issues and problems that impact on local African institution building capacities and self-help development models. The strategy is designed to serve as a guide for the development and implementation of ADF's research activities.	1. Develop, test and implement a research strategy for conducting country profiles in countries where ADF's assistance is targeted. Use the profiles to formulate ADF's specific funding and research priorities that correspond to needs of the Foundation's constituencies.	1986
	2. Collect the long-range social and economic development plans of host countries where ADF provides support to indigenous organizations; and analyze the plans by region in order to determine government priorities, and to identify ways in which host country infrastructures can be used to support ADF assisted activities.	1986-1987
	3. Develop the capacity to assess research activities that are relevant to African development initiatives supported by the U.S. and the international development community fostering long term partnerships between ADF initiated research activities and other existing research activities.	1986-1987

OBJECTIVE A: To foster the creation and growth of local development institutions and provide support to self-help development

STRATEGY AREA	TASK	FISCAL YEAR INITIATED
EVALUATION. Conduct evaluations designed to document the effectiveness and impacts of ADF supported program efforts, as well as the processes used in the development, management, and implementation of those efforts. This strategy seeks to enable ADF to be more knowledgeable about the experiences gained and lessons learned from ADF assisted projects. Information gained on grassroots development institutions and initiatives will be disseminated, where appropriate, throughout Africa, to the American public and throughout the international development assistance community.	1. Develop an evaluative design that enables ADF to assess the impacts of ADF support on institutional development at the local level, and on self-help activities. Develop an evaluative mechanism that enables ADF to assess the impacts of host country governmental support and the degree of that support on ADF funded projects.	1986-1987
	2. Develop the capability to monitor projects, document the lessons learned, and to disseminate information gleaned from ADF assisted projects in the most appropriate form(s) to the American public, development assistance agencies, and relevant audiences in Africa.	1986-1987

OBJECTIVE A: To foster the creation and growth of local development institutions and provide support to self-help development

STRATEGY AREA	TASK	FISCAL YEAR INITIATED
	3. Develop an evaluative design that is sensitive to the grantees' goals and ADF's need to know how projects work, and how maintenance-of-effort issues are resolved; and develop an evaluative design that assists ADF in determining the most effective, efficient and appropriate ways to deliver assistance at the grassroots level in Africa.	1986

OBJECTIVE A: **To foster the creation and growth of local development institutions and provide support to self-help development**

STRATEGY AREA	TASK	FISCAL YEAR INITIATED
PROJECT MONITORING ACTIVITIES. Develop and implement a management information system that will enhance ADF's capacity to better oversee the effective use of its assistance by funded sites. This strategy is focused on tracking ADF assisted projects. Information gained through project monitoring will be used to enable ADF to refine its endeavors supporting institution building and local development initiatives at the grassroots level.	1. Review and refine ADF's project monitoring system. Effectively employ computers and other information maintenance and retrieval aids to support the system.	1986
	2. Develop a cadre of qualified indigenous consultants who will be able to monitor indigenous projects for ADF.	1986
	3. Use host country nationals and U.S. citizens as liaisons.	1986

OBJECTIVE A: **To foster the creation and growth of local development institutions and provide support to self-help development**

STRATEGY AREA	TASK	FISCAL YEAR INITIATED
MANAGEMENT SYSTEMS ACTIVITIES. Review and refine ADF's management operations in order to foster the creation and growth of indigenous grassroots institutions and to provide support to self-help initiatives. Enhance existing organizational management systems in order to ensure the effective administration of grants, loans and loan guarantees.	1. Review and refine ADF's existing management system in order to ensure that the Foundation continues to operate efficiently and effectively.	1986-1989
	2. Delegate the authority for reviewing, approving and funding small projects ($500 to $2,500) to the Office of the Program and Field Operations staff through the Director. A quarterly review of these projects will be conducted by the PRC. The Director of Program and Field Operations will prepare a special report on these activities for the PRC's considerations.	1986
	3. Improve ADF's capacity to give definitive responses to the funding requests of applicants within 90 working days after the receipt of the requests at ADF's headquarters.	1986

OBJECTIVE A: To foster the creation and growth of local development institutions and provide support to self-help development

STRATEGY AREA	TASK	FISCAL YEAR INITIATED
MANAGEMENT SYSTEMS ACTIVITIES. Review and refine ADF's management operations in order to foster the creation and growth of indigenous grassroots institutions and to provide support to self-help initiatives. Enhance existing organizational management systems in order to ensure the effective administration of grants, loans and loan guarantees.	1. Review and refine ADF's existing management system in order to ensure that the Foundation continues to operate efficiently and effectively.	1986-1989
	2. Delegate the authority for reviewing, approving and funding small projects ($500 to $2,500) to the Office of the Program and Field Operations staff through the Director. A quarterly review of these projects will be conducted by the PRC. The Director of Program and Field Operations will prepare a special report on these activities for the PRC's considerations.	1986
	3. Improve ADF's capacity to give definitive responses to the funding requests of applicants within 90 working days after the receipt of the requests at ADF's headquarters.	1986

Objective B: To provide support to development research initiatives designed and implemented by Africans and the transfer of development resources, expertise, and knowledge within Africa

Through the achievement of this objective ADF will provide support to African researchers and thus enhance their opportunities to address issues and problems impacting the self-help development efforts of Africans at the local level. Strategies proposed to achieve this objective include:

- Reviewing and refining ADF's management system and developing procedures and accompanying criteria to ensure that ADF's support, targeted to indigenous African research initiatives and research entities (individual and organizational), is delivered efficiently and appropriately. Resources used to implement the ADF-assisted research component are focused on guaranteeing that ADF's support is targeted to research initiatives that address issues relevant to grassroots development and the role of the poor in that development.
- Facilitating the transfer of knowledge gleaned from the research of indigenous African researchers to appropriate African audiences.
- Bringing private sector (U.S. and African) support within the reach of indigenous African researchers.
- Determining impact(s) of ADF's assisted research component on local self-help development organizations and initiatives and the role of the poor in development.

Implementation. The Office of Research and Evaluation is responsible for implementing activities proposed under this objective.

Time frame(s). Program support and knowledge transfer strategies will be initiated in FY 1986; private sector collaboration and evaluation strategies will be initiated in FY 1987.

OBJECTIVE B

OBJECTIVE B: To provide support to development research initiatives designed and implemented by Africans and the transfer of development resources, expertise and knowledge within Africa

STRATEGY AREA	TASK	FISCAL YEAR INITIATED
PROGRAM SUPPORT. Review and refine ADF's management system and develop procedures and accompanying criteria to ensure that ADF's support, targeted to indigenous African research initiatives and research entities (individual and organizational), is delivered in the most efficient and appropriate manner possible. Resources used to implement the ADF assisted research activities are focused on guaranteeing that ADF's support is targeted to research initiatives that address issues relevant to grassroots development and the role of the poor in that development.	1. Establish the planned Office of Research and Evaluation within ADF, and place the primary responsibility for achieving this objective within this office.	1986
	2. Develop procedures and criteria for implementing ADF's assisted research component.	1986
	3. Review and refine ADF's existing management plan to complement and accommodate providing the support necessary for implementing the assisted research component.	1986-1987
	4. Establish a policy of providing priority in financial support to only indigenous African organizations and individuals for research projects, program evaluation projects, and technical assistance.	1986

OBJECTIVE B: **To provide support to development research initiatives designed and implemented by Africans and the transfer of development resources, expertise and knowledge within Africa**

STRATEGY AREA	TASK	FISCAL YEAR INITIATED
	5. Establish an outreach program to identify African researchers, research organizations and networks of researchers; and inform African researchers about ADF and its assisted research component.	1986
	6. Identify, biannually, through program evaluation activities and country profile updates, major voids in skills and information needed by local African development organizations.	1986
	7. Review and refine project selection procedures to provide support to applied research initiatives and other research initiatives that address questions and issues relevant to grassroots development and the role of the poor in development.	1986

OBJECTIVE B: To provide support to development research initiatives designed and implemented by Africans and the transfer of development resources, expertise and knowledge within Africa

STRATEGY AREA	TASK	FISCAL YEAR INITIATED
	8. Review and refine ADF's project selection procedures to provide support to indigenous research initiatives focused on identifying successful and replicable, self-help development models at the local level.	1986
	9. Review and refine ADF's project selection criteria to give priority in funding to research initiatives designed to facilitate the transfer of skills needed by those engaged in implementing self-help development initiatives.	1986

OBJECTIVE B: To provide support to development research initiatives designed and implemented by Africans and the transfer of development resources, expertise and knowledge within Africa

STRATEGY AREA	TASK	FISCAL YEAR INITIATED
	10. Review and refine ADF's project selection criteria to give priority in funding to research initiatives that address institution building and maintenance-of-effort issues at the local level.	1986
	11. Review and refine ADF's project selection procedures to provide support to doctoral dissertations of African students based in Africa addressing issues relevant to ADF's African constituency.	1986

OBJECTIVE B: To provide support to development research initiatives designed and implemented by Africans and the transfer of development resources, expertise and knowledge within Africa

STRATEGY AREA	TASK	FISCAL YEAR INITIATED
KNOWLEDGE TRANSFER. Facilitate the transfer of knowledge gleaned from the research of indigenous African researchers to appropriate African audiences.	1. Review and refine ADF project selection criteria to give priority in funding to the African research activities that focus on forging innovative linkages between indigenous researchers, local development organizations and Africa's poor.	1986
	2. Review and refine ADF project selection criteria to provide support to African initiatives concerned with (a) disseminating information on grassroots development and the role of the poor in development, and (b) transferring needed skills to local development organizations.	1986
	3. Create and offer incentives to encourage indigenous researchers to initiate applied research activities through direct TA and disseminate their relevant findings through paper and book publications.	1986

OBJECTIVE B: To provide support to development research initiatives designed and implemented by Africans and the transfer of development resources, expertise and knowledge within Africa

STRATEGY AREA	TASK	FISCAL YEAR INITIATED
	4. Review and refine project selection procedures to support the dissemination of information generated as a result of ADF assisted research in Africa through African educational associations, non-governmental organizations (NGOs), private voluntary organizations (PVOs), and governments.	1986

OBJECTIVE B: To provide support to development research initiatives designed and implemented by Africans and the transfer of development resources, expertise and knowledge within Africa

STRATEGY AREA	TASK	FISCAL YEAR INITIATED
PRIVATE SECTOR COLLABORATION Bring private sector (U.S. and African) support within the reach of indigenous African researchers.	1. Develop and implement an outreach program to inform the U.S. and African private sectors about the research activities of indigenous Africans and the potential benefits that will accrue to all audiences concerned with development in Africa.	1987
	2. Encourage the private sector (U.S. and African) to support symposiums, research activities and the dissemination of findings of indigenous researchers throughout Africa by fully utilizing ADF's network and encouraging collaborative relationships between indigenous researchers and U.S./African private corporations.	1987-1988
	3. Encourage the development of new linkages between the African private sector, the indigenous research community and grass-roots development organizations that are controlled by and/or representative of the interests of the poor.	1987

OBJECTIVE B: To provide support to development research initiatives designed and implemented by Africans and the transfer of development resources, expertise and knowledge within Africa

STRATEGY AREA	TASK	FISCAL YEAR INITIATED
EVALUATION. Determine impact(s) of ADF's assisted research component on local self-help development organizations and initiatives.	1. Design, test and launch an evaluative strategy that assesses the overall impacts (affectiveness) of ADF assisted research on the African target constituencies. Use the results to review and refine ADF's assisted strategy to ameliorate any negative or negligible impacts and maximize positive ones.	1987-1988
	2. Review and refine the ADF assisted research strategy, where appropriate, to correspond to recommendations provided through impact analysis assessments and country profiles.	1988

Objective C: To encourage the development of self-evaluation techniques by participants in projects supported through the Foundation for the purpose of transferring experience gained in such projects to similar development activities

The development of Africa by Africans is integrally tied to the willingness and ability of Africans--who are involved in the social, economic, and physical development of their communities--to evaluate their initiatives, document the programmatic processes and impacts of their efforts on their communities and share such information with one another. The strategies under this objective are, therefore, designed to facilitate the generation and sharing of such information among Africans engaged in community level development activities. They are:

- Identifying tasks associated with supporting and encouraging the development of self-evaluation capacities at the grassroots level in Africa and internally at ADF.
- Supporting the transfer of knowledge and skills gained from self-evaluation initiatives through ADF publications to the appropriate audiences.
- Encouraging the development and maintenance of innovative linkages between the African indigenous, private sector and grassroots organizations; and targeting U.S. private sector support to this objective.
- Supporting the development, maintenance, and transfer of knowledge gained from indigenously designed, self-evaluation techniques to appropriate audiences.
- Requiring close collaboration between ADF's Offices of Research and Evaluation and Program and Field Operations.
- Controlling the quality of self-evaluation and monitoring the implementation of self-evaluation activities.

Implementation. The successful implementation of strategies under this objective will require the following ADF organizational units to carry out the following roles and responsibilities: the Program Review Committee will be reviewing and refining project selection procedures and criteria to target more effectively those activities with self-evaluation components; the Public Affairs Division within the Office of the President will be responsible for knowledge dissemination activities associated with this objective; the Office of Program and Field Operations will be responsible for tasks associated with project monitoring and African private sector collaborations; and the Office of Research and Evaluation will be responsible for tasks associated with Research and Evaluation.

Time frame(s). The program support strategy will be initiated in FY 1986; the knowledge transfer, private sector collaboration, assisted African research, project monitoring and evaluation strategies will be initiated in FY 1986; the development education strategy and specific tasks associated with disseminating research findings on indigenously developed self-evaluation models will be initiated in FY 1987 responsibilities: the Program Review Committee will be responsible for reviewing and refining project selection procedures and criteria to target more effectively ADF resources to those activities with self-evaluation components; the Public Affairs Division within the Office of the President will be responsible for knowledge dissemination activities associated with this objective; the Office of Program and Field Operations will be responsible for tasks associated with project monitoring and African private sector collaborations; and the Office of Research and Evaluation will be responsible for tasks associated with Research and Evaluation.

Time frame(s). The program support strategy will be initiated in FY 1986; the knowledge transfer, private sector collaboration, assisted African research, project monitoring and evaluation strategies will be initiated in FY 1986; the development education strategy and specific tasks associated with disseminating research findings on indigenously developed self-evaluation models will be initiated in FY 1987.

OBJECTIVE C

OBJECTIVE C: To encourage the development of self-evaluation techniques by participants in projects supported through the Foundation for the purpose of transferring experience gained in such projects to similar development activities

STRATEGY AREA	TASK	FISCAL YEAR INITIATED
PROGRAM SUPPORT. Identify tasks associated with supporting and encouraging the development of self-evaluation capacities at the grassroots in Africa and internally at ADF.	1. Give priority in funding to proposed projects that include self-evaluation components.	1986
	2. Provide financial incentives to grantees that include self-evaluation components in proposals.	1986
	3. Allocate appropriate resources to support self-evaluation and knowledge transfer activities.	1986
	4. Encourage applicants to procure appropriate technical and other assistance needed to conduct self-evaluations and the transfer skills required to conduct such evaluations.	1986

OBJECTIVE C: To encourage the development of self-evaluation techniques by participants in projects supported through the Foundation for the purpose of transferring experience gained in such projects to similar development activities

STRATEGY AREA	TASK	FISCAL YEAR INITIATED
	5. Support efforts to provide training in self-evaluation techniques to organizations administering ADF supported projects.	1986
	6. Draw on accumulated experience with self-evaluation techniques in order to develop prototypes that can be shared with interested groups and organizations.	1986

OBJECTIVE C: To encourage the development of self-evaluation techniques by participants in projects supported through the Foundation for the purpose of transferring experience gained in such projects to similar development activities

STRATEGY AREA	TASK	FISCAL YEAR INITIATED
KNOWLEDGE TRANSFER. Support the transfer of knowledge and skills gained from self-evaluation initiatives of indigenous Africans through the ADF publications to the appropriate audiences.	1. Support the transfer of knowledge gained through the publication of the journal, newsletter and development of manuals and and other materials on self-evaluations.	1986-1988
	2. Facilitate the development of pamphlets, appropriately designed, to transfer knowledge gained in one project to another similar project.	1987-1988
	3. Use local media, broadcasting and printing in local languages, to disseminate information on the results and experiences of local development initiatives where appropriate.	1986-1987
	4. Publish articles on self-evaluation models and project experiences of Africans in the journal and newsletter.	1987-1988

OBJECTIVE C: **To encourage the development of self-evaluation techniques by participants in projects supported through the Foundation for the purpose of transferring experience gained in such projects to similar development activities**

STRATEGY AREA	TASK	FISCAL YEAR INITIATED
PRIVATE SECTOR COLLABORATION Encourage the development and maintenance of innovative linkages between the African indigenous, private sector and grassroots organizations; and target American private sector support to this objective.	1. Encourage the development of linkages between indigenous professionals with evaluation expertise to transfer evaluative skills to local organizations.	1986
	2. Encourage American private sector participation in the support of efforts to disseminate information on project experiences as a result of the self-evaluation activities of ADF supported projects.	1986

OBJECTIVE C: To encourage the development of self-evaluation techniques by participants in projects supported through the Foundation for the purpose of transferring experience gained in such projects to similar development activities

STRATEGY AREA	TASK	FISCAL YEAR INITIATED
RESEARCH. Support the development, maintenance and transfer of knowledge gained on indigenously designed, self-evaluation techniques to appropriate audiences.	1. Support African researchers and learning institutions in developing self-evaluation models and conducting training projects with local level organizations and leaders.	1986
	2. Disseminate through the most appropriate forms of communication the knowledge gained from the models developed by African researchers and learning institutions throughout Africa and to development assistance agencies.	1987-1988

OBJECTIVE C: To encourage the development of self-evaluation techniques by participants in projects supported through the Foundation for the purpose of transferring experience gained in such projects to similar development activities

STRATEGY AREA	TASK	FISCAL YEAR INITIATED
DEVELOPMENT EDUCATION Disseminate knowledge gained through self-evaluations to the appropriate audiences.	1. Publish articles on self-evaluation models and project experiences of Africans in the journal and newsletter. The symposiums also lend themselves for use in disseminating information on both.	1987-1988
	2. Develop innovative ways to communicate findings in local indigenous languages.	1987

OBJECTIVE C: **To encourage the development of self-evaluation techniques by participants in projects supported through the Foundation for the purpose of transferring experience gained in such projects to similar development activities**

STRATEGY AREA	TASK	FISCAL YEAR INITIATED
PROJECT MONITORING. Requires close col-laboration between the Office of Research & Evaluation and of Program & Field Operations.	1. Monitor the development and use of the self-evaluation models used by recipients of ADF support.	1986-1987
	2. Draw on African and U.S. expertise in assisting ADF in monitoring self-evaluation activities.	1986

OBJECTIVE C: To encourage the development of self-evaluation techniques by participants in projects supported through the Foundation for the purpose of transferring experience gained in such projects to similar development activities

STRATEGY AREA	TASK	FISCAL YEAR INITIATED
EVALUATION. Control the quality of self-evaluations and monitor the implementation of the self-evaluation activities.	1. Develop, as part of the implementation plan in the Office of Research and Evaluation, an evaluative system assessing self-evaluation models of ADF recipients.	1986
	2. Test the evaluation system.	1986
	3. Implement the evaluation system.	1986
	4. Report results to appropriate audiences.	1987

Objective D: To support and encourage the procurement of indigenous African technical and other assistance as is deemed appropriate by recipients of ADF support

Strategies to guide the achievement of this objective require providing ADF support to activities that forge linkages between African experts--from the African private sector, the academic community and intermediary organizations--and local community and village organizations receiving ADF support. Six strategies are proposed to achieve this objective. They include:

- Facilitating the linkage of African providers of technical and other expert assistance to grassroots institutions receiving ADF support. Technical and other expertise in such areas as management, agriculture, small business development and health care are to be brought within the reach of ADF-assisted initiatives in the most timely, cost-effective and efficient manner possible. Emphasis is also provided on guaranteeing that technical assistance and other expert assistance translates into new skill development within the targeted community and organizations receiving ADF support.

- Developing an approach that enables ADF to support the preparation and dissemination of technical assistance ("how to") manuals on areas critical to the self-help initiatives of indigenous Africans.

- Stimulating and supporting opportunities for joint venture projects between the African private sector and organizations/initiatives funded through ADF. The indigenous African private sector possesses a reservoir of practical expertise and knowledge that can be used by indigenous grassroots organizations in implementing ADF-supported activities.

- Determining the impacts of ADF assistance on the effectiveness and efficiency of organizations/initiatives, which it supports.

- Ensuring that the critical roles of technical and other assistance are reviewed in a timely and systematic manner guaranteeing that they appropriately and adequately correspond to needs.

- Developing and implementing an efficient and cost-effective process for guaranteeing that ADF-supported TA and other assistance meets the needs of ADF-supported initiatives and grassroots institutions. This strategy will promote the creation and growth of linkages between indigenous liaisons, regional professional organizations, local development organizations and Africa's poor.

Implementation. The Program Review Committee will be responsible for reviewing and refining project review procedures and criteria related to the program support strategy; and the Office of the Program and Field

Operations will be responsible for implementing the programmatic tasks associated with the program support strategies presented to achieve this objective. The knowledge transfer strategy and evaluation responsibilities are targeted to the Office of Research and Evaluation; and the programmatic private sector strategy responsibilities are targeted to the Office of Program and Field Operations. The Office of Program and Field Operations will also be responsible for project monitoring and field support. All publication related tasks, associated with the knowledge transfer and private sector collaborations will be undertaken by the Public Affairs Division within the Office of the President.

Time frame(s). The program support, knowledge transfer, evaluation, project monitoring and field support strategies will be initiated in FY 1986. The majority of the tasks contained in the private sector collaboration strategy will be initiated in FY 1987.

OBJECTIVE D

OBJECTIVE D: **To support and encourage the procurement of indigenous African technical and other assistance as is deemed appropriate by recipients of ADF support**

STRATEGY AREA	TASK	FISCAL YEAR INITIATED
PROGRAM SUPPORT. Facilitate the linkage of African providers of technical and other assistance with grassroots institutions receiving ADF support. The technical and other expertise in such areas as management, agriculture, small business development and health care must be accessible to ADF assisted initiatives in the most timely, cost-effective and efficient manner possible. Emphasis is also provided on guaranteeing that TA and other expert assistance translates into new skill development within the community and organization receiving ADF support.	1. Encourage the development of innovative and creative relationships between African technical experts and the recipients of ADF support by granting priority consideration to proposals which incorporate technical experts as part of the project design.	1986
	2. Encourage ADF applicants to realistically assess the TA and other assistance needs in proposals and accurately reflect the expert assistance needs in their budgets by funding intermediary organizations to train the leadership of potential ADF recipient organizations in management practices and budgetary procedures.	1986

OBJECTIVE D: To support and encourage the procurement of indigenous African technical and other assistance as is deemed appropriate by recipients of ADF support

STRATEGY AREA	TASK	FISCAL YEAR INITIATED
	3. Develop collaborative relationships with African regional, professional and academic organizations through funding joint ventures which impact directly problems of mutual interest.	1986-1987
	4. Develop country and regional lists of technicians by discipline, capable of and interested in providing TA and other relevant assistance to recipients of ADF support; verify the capabilities of the technicians; and provide the lists to organizations requesting ADF support. Update the lists on an annual basis.	1986
	5. Encourage skill transfer from providers of TA to recipients of ADF support through proposal rating criteria designed specifically to give special funding consideration to projects with sound skill transfer components.	1986-1987

OBJECTIVE D: **To support and encourage the procurement of indigenous African technical and other assistance as is deemed appropriate by recipients of ADF support**

STRATEGY AREA		TASK	FISCAL YEAR INITIATED
KNOWLEDGE TRANSFER Develop an approach that enables ADF to support the preparation and dissemination of TA ("how to") manuals on areas critical to the self-help initiatives of indigenous Africans; and facilitate the dissemination of information on indigenous technical expertise to appropriate audiences.	1.	Provide funding for the development of "how to" manuals and other instructional materials and forums that are needed by recipients of ADF support to assist them in effectively implementing their projects.	1985-1987
	2.	Disseminate throughout Africa at the grass-roots level, copies of "how to" manuals developed through ADF funds.	1987-1988
	3.	Share with U.S. public opinion makers, the U.S. development assistance community and the international development assistance community ADF's experiences with supporting projects with indigenously provided TA.	1986
	4.	Catalog through a computer program, technical expertise in Africa and make the information available to African organizations and U.S. development and international assistance organizations.	1986-1987

OBJECTIVE D: To support and encourage the procurement of indigenous African technical and other assistance as is deemed appropriate by recipients of ADF support

STRATEGY AREA	TASK	FISCAL YEAR INITIATED
PRIVATE SECTOR COLLABORATION Stimulate and support opportunities for joint venture projects between the African private sector and organizations/initiatives funded through ADF. This strategy focuses on potential linkages of the African private sector with organizations and initiatives supported through ADF. The indigenous African private sector possesses a reservoir of practical expertise and knowledge that can be used by indigenous grassroots organizations in implementing ADF supported activities.	1. Promote through the sharing of information on successful collaborative ventures, new relationships between the ADF recipient and private sector individuals and entities capable of providing specialized TA and other appropriate assistance.	1987-1988
	2. Create a mechanism to fully maximize the use of local resources by bringing together the private sector and influential persons at the local level with the poor members of urban and rural communities.	1986-1987
	3. Through the publication of research articles on the outcomes and impacts of joint venture economic development projects between Africa's private sector and ADF assisted organizations/initiatives, sensitize the African private sector to the increased development and economic growth potential stimulated when Africa's poor fully participate in development activities.	1987-1988

OBJECTIVE D: To support and encourage the procurement of indigenous African technical and other assistance as is deemed appropriate by recipients of ADF support

STRATEGY AREA	TASK	FISCAL YEAR INITIATED
EVALUATION Determine the impact of all ADF assistance on the effectiveness and efficiency of organizations/initiatives which it supports.	1. Develop and implement evaluation activities that are designed to assess the adequacy, appropriateness, effectiveness and impact of ADF assistance on local institutions and initiatives which it supports.	1986-1987
	2. Document findings of evaluation activities discussed above.	1986-1987

OBJECTIVE D: To support and encourage the procurement of indigenous African technical and other assistance as is deemed appropriate by recipients of ADF support

STRATEGY AREA	TASK	FISCAL YEAR INITIATED
PROJECT MONITORING Ensure that the critical roles of TA and other assistance are reviewed in a timely and systematic manner to guarantee that the TA or other assistance provided to ADF's target institutions and population correspond to their needs.	1. As a part of the country profiles, identify key technical and other assistance requirements of grassroots organizations that respond to the needs and aspirations of the poor.	1986
	2. Incorporate into the project monitoring system, factors that will facilitate the recipient's efforts to document the quality and quantity of assistance provided by outside, indigenous experts.	1986

OBJECTIVE D: To support and encourage the procurement of indigenous African technical and other assistance as is deemed appropriate by recipients of ADF support

STRATEGY AREA		TASK	FISCAL YEAR INITIATED
FIELD SUPPORT Develop and implement an efficient and cost-effective process for guaranteeing that ADF supported TA and other assistance meets the needs of ADF supported initiatives and grassroots institutions. This will promote the creation of linkages between indigenous liaisons, regional professional organizations, the grassroots organizations and Africa's poor.	1.	Utilize indigenous liaisons and regional professional organizations to provide information on TA and other assistance providers in a timely manner to ADF's headquarters and to recipients of ADF support.	1986

OBJECTIVE D: To support and encourage the procurement of indigenous African technical and other assistance as is deemed appropriate by recipients of ADF support

STRATEGY AREA	TASK	FISCAL YEAR INITIATED
DEVELOPMENT EDUCATION This strategy will facilitate the dissemination of information on indigenous technical expertise to appropriate audiences.	1. Catalog through a computer program, technical expertise in Africa and make the information available to African organizations and U.S. development and international assistance organizations.	1986-1987

Objective E: To communicate to the U.S. public and multilateral development institutions insights gained from the implementation of African self-help development projects assisted through the Foundation

ADF was created to "strengthen the bonds of friendship between" the people of Africa and the people of the United States. It was also established as a laboratory to identify the most effective and efficient ways of providing support to African self-help initiatives; to learn from the provision of that support; and to disseminate the information gained to the appropriate audiences in the United States and the development assistance community. This objective and the accompanying four strategies charts, ADF's path towards realizing the purposes for which it was created. The strategies put forth to achieve this objective include:

- Transmitting the lessons learned from ADF's support of African self-help development activities to the appropriate audiences in Africa, in the United States and throughout the international development assistance community.
- Creating and maintaining linkages between ADF and the United States private sector in order to disseminate information regarding ADF and the economic and social development models that are developed and implemented by Africa's poor communities.
- Strenghtening the in-house capacity of ADF to communicate to the U.S. public and multilateral development institutions insights gained from African development projects assisted through the Foundation.
- Providing ADF with an approach for collecting information--in a timely and cost-effective manner--that the Foundation may wish to disseminate to appropriate audiences.

Implementation. With the exception of tasks associated with establishing an Internship Program, the Public Affairs Division within the Office of the President has responsibility for implementing the strategies presented to achieve this objective.

The Office of Administration and Finance will be responsible for the development and maintenance of the Internship Program; and the Office of the Vice President will be responsible for the Resident Scholar's Chair.

Time frame(s). Tasks associated with establishing the Resident Scholar's Chair, and the Internship Program and working with colleges and universities will be initiated in FY 1987. All other tasks associated with achieving this objective will be initiated in FY 1986.

OBJECTIVE E

OBJECTIVE E: To communicate to the U.S. public and multilateral development institutions insights gained from implementation of African self-help development projects assisted through the Foundation

STRATEGY AREA	TASK	FISCAL YEAR INITIATED
INFORMATION/KNOWLEDGE TRANSFER. Transmit the lessons learned from ADF's support of African self-help development activities to the appropriate audiences in Africa, in the U.S., and throughout the international development assistance community.	1. Publish an ADF semi-annual journal and and a quarterly newsletter.	1986
	2. Sponsor 4 symposiums per year on issues critical to grassroots development and the role of the poor in development, utilizing indigenous African scholars and recipients of ADF support.	1986
	3. Identify U.S. public opinion leaders at local and State levels; and transmit to them on a regular basis, other information regarding ADF and the activities it supports.	1986-1987
	4. Create an in-house speakers bureau to respond to request for information about ADF from the U.S. public and international organizations.	1987
	5. Create a comprehensive mailing list consisting of national and international opinion makers, private voluntary organizations (PVOs), non-governmental organizations (NGOs), and religious leaders.	1986-1987

OBJECTIVE E: To communicate to the U.S. public and multilateral development institutions insights gained from implementation of African self-help development projects assisted through the Foundation

STRATEGY AREA	TASK	FISCAL YEAR INITIATED
	6. In conjunction with multilateral development institutions, sponsor conferences on issues relevant to ADF's mission.	1986
	7. Create an ongoing dialogue with organizations such as AID, World Bank, UNDP and UNHCR and ADB to assure collaboration of efforts.	1986
	8. Encourage and provide a forum for the leaders of ADF supported organizations and initiatives to share their experiences in developing, managing, and implementing social and economic development activities within their respective communities.	1986-1987

OBJECTIVE E: **To communicate to the U.S. public and multilateral development institutions insights gained from implementation of African self-help development projects assisted through the Foundation**

STRATEGY AREA	TASK	FISCAL YEAR INITIATED
	9. Use in-house journals and organizational publications of other U.S. and international organizations to disseminate information on the lessons learned by ADF in delivering African development assistance.	1986
	10. Establish an intern program with high schools, colleges and universities in order to expose students to issues associated with African grassroots development and ADF supported projects.	1987
	11. Establish a Resident Scholars Chair at ADF's headquarters.	1987

OBJECTIVE E: To communicate to the U.S. public and multilateral development institutions insights gained from implementation of African self-help development projects assisted through the Foundation

STRATEGY AREA	TASK	FISCAL YEAR INITIATED
PRIVATE SECTOR COLLABORATION Create and maintain linkages between ADF and the American private sector in order to disseminate information regarding ADF and social and economic development models that are developed and implemented by Africa's poor communities.	1. Identify non-appropriated funds for use in disseminating information on ADF and similarly assisted grassroots development approaches, through a partnership with the private sector.	1986
	2. Use journals and other publications of private sector organizations to publicize ADF and share knowledge gained through supporting grassroots development initiatives in Africa.	1986-1987
	3. Maximize the use of private institutions as forums for disseminating information on African grassroots development and ADF.	1986
	4. Utilize resources of the National Public Affairs Association and the National Ad Council to identify appropriate means of disseminating information on ADF, its activities and grassroots development in Africa.	1986

OBJECTIVE E: To communicate to the U.S. public and multilateral development institutions insights gained from implementation of African self-help development projects assisted through the Foundation

STRATEGY AREA	TASK	FISCAL YEAR INITIATED
	5. Work with colleges and universities to assist in developing instructional materials on African development.	1987-1988
	6. Develop an initiative, in conjunction with organizations like Phelps Stokes or the African American Institute, to sponsor visits of African students to American colleges and high schools in order to expose American students to issues and problems associated with African development and the role of the poor in that development.	1986

OBJECTIVE E: To communicate to the U.S. public and multilateral development institutions insights gained from implementation of African self-help development projects assisted through the Foundation

STRATEGY AREA	TASK	FISCAL YEAR INITIATED
MANAGEMENT SUPPORT Strengthen the in-house capacity of ADF to communicate to the U.S. public and multilateral development institutions insights gained from African development projects assisted through the Foundation.	1. Utilize consultant services to implement this objective on a temporary basis.	1986
	2. Create a Public Affairs Division within the Office of the President.	1987

OBJECTIVE E: To communicate to the U.S. public and multilateral development institutions insights gained from implementation of African self-help development projects assisted through the Foundation

STRATEGY AREA	TASK	FISCAL YEAR INITIATED
FIELD SUPPORT. Provide ADF with an approach for collecting information--in a timely and cost-effective manner--that the Foundation will disseminate to appropriate audiences.	1. Use host country liaison to identify activities that should be included in the journal and newsletter.	1986

THE BUDGET AND ITS IMPLICATIONS

The budget summary provides a concise overview of the relationship between ADF's expenditures and country and program activities during FY 1986-1990. Following the summary are implications of the Plan for each organizational unit.

Budget Summary

The total annual obligations under the Long-Range Plan will increase incrementally from $13.4 million in FY 1986 to $30.2 million in FY 1990. The Plan is designed to place emphasis on project-related funding, while minimizing personnel and administrative costs. When the cumulative total for non-project expenses is considered, $22.5 million or 19.1 percent of the total obligations for the five fiscal years are projected for that purpose. During the period covered by the Plan, 80.9 percent or $95.6 million of ADF's resources are transformed into direct investments in local African development projects.

The Plan entails a considerable expansion in country and program activity, initially involving work in 15 African countries during FY 1986. By the end of FY 1990, ADF will be working in 75 percent or 40 of the countries in Africa. Although the number of projects per country will remain unchanged (an average of 10 ADF projects in each), the extension of the geographic scope of ADF's work will result in a threefold increase in the total number of projects from approximately 125 in FY 1986 to nearly 400 by the end of FY 1990.

The rapid growth in the number of ADF projects for the African continent is, in part, determined by ADF's policy to sustain small assistance projects at an average size of $70,000 throughout the period covered by the Plan. The project size is in accord with the Congressional mandate of facilitating smaller, cost-effective, local self-help efforts, as well as the need and potential for an appropriately broad, yet still manageable distribution of limited ADF assistance funds. The immediate and long-range consequences of the above continental scope and planned expansion for ADF's budget policy involve parallel changes in obligations. Of particular concern is the necessary increase in program support capacities at both the field and headquarter levels. This increase will ensure adequate grants management of ADF-assisted projects. The number of Foundation representatives will, accordingly, be increased from five in FY 1986, to twelve by FY 1990. The growth in the cost of field-related activities will be significantly checked by the establishment of one small field office in FY 1987, and three small field offices by FY 1990. The development of the latter offices will further enhance ADF's activities focused on monitoring projects, processing proposals and increasing the productivity of grantees and Foundation Representative functions. The number of full-time field office staff will grow from three in FY 1987, to six in FY 1988, and to nine in FY 1989, providing support to the Foundation's activities in 40 countries and approximately 400 ADF-assisted projects.

The growth in project funding from $10.5 million in FY 1986, to a $25.2 million project budget also entails a steady increase in program support staff at ADF headquarters, particularly in the Offices of Administration and Finance and the Office of Program and Field Operations.

During the life of the Plan, ADF anticipates supporting a total number of approximately 1,100 or more small, local level African projects in 40 countries. This goal constitutes not only a feasible objective, but also a significant development, research and evaluation challenge. It also presents an opportunity to support and document self-help development models that are appropriate in the African context. The implications of the Plan and its proposed budget are detailed, by organizational unit, in the following subsections.

Office of Program and Field Operations

By FY 1986 ADF will have a total of 16 new country entries. This level of entries, beginning in FY 1987, will be expanded by 7 new entries per year, reaching a maximum level of 40 by FY 1990. It is also estimated that as of FY 1986 there will be 10 projects operating within each country until a maximum level of 400 projects have been attained by FY 1990. The average amount of funding per project will be approximately $70,000.

In order to assure adequate grants management of funded sites, the Office of Program and Field Operations will require the following staffing additions during FY 1986 through FY 1990:

- The position of Deputy Director for Program and Field Operations will be created and filled by FY 1986.
- By FY 1990, nine additional Foundation Representatives will be employed in order to meet the grants management needs of the expanded number of ADF-assisted sites. Each Foundation Representative will have grants management responsibilities for approximately three countries.
- There is currently one Program Officer on staff. By FY 1987 this number will be expanded to four. This increase will be necessary because of the increased number of Foundation Representatives requiring the administrative assistance provided through the Program Officer positions. Each Program Officer will be assigned to work with three Foundation Representatives per year.
- In order to provide sufficient secretarial support to meet the needs of an expanded program staff, four additional Secretaries will be hired within the Office of Program and Field Operations by FY 1989. There are currently three Secretaries assigned to this Office.
- In FY 1986 ADF will establish a permanent field presence in Africa through the use of indigenous African consultants. These consultants, under the direction of the Director of the Office of Program and Field Operations, will assist in monitoring projects and will assume other functions that will eventually be housed in the proposed Regional Field Offices.
- In FY 1987 ADF will initiate operations of the first of three proposed Regional Field Offices, within the Office of Program and Field Operations. The remaining two Regional Field Offices will be operational in FY 1988 and FY 1989, respectively. The effective management of each Field Office will require each to be staffed with the following full-time personnel--a Regional Office Director, a Regional Office Program Specialist and a Regional Office Secretary. It is anticipated that all Regional Field Offices will be staffed by African nationals.

Office of Administration and Finance

The fiscal and personnel management responsibilities of ADF will be greatly expanded as a result of the implementation of its Five-Year Plan. The amount of fiscal assistance provided will increase, as well as the number of sites receiving such assistance. In addition, the Office will also be responsible for overseeing the creation and maintenance of a loan and loan guarantee program by FY 1988. In order to carry out its responsibilities under the Plan, the Office will require the following additions to its existing staff during FY 1986 through FY 1990.

- In FY 1987 an Associate Director of Administration and Finance will be employed to provide administrative support to the Director of that Office; a Contracting Officer, Accounting Officer and a Travel Officer will be brought on staff to broaden and strengthen the overall management of ADF; and a Secretary will be hired.
- By FY 1988 ADF will launch its loan and loan guarantee program. The creation and operation of the program will require that the Office hire within that fiscal year a Loan Officer, Personnel Officer, Contracting Officer, an Accounting Officer and a Secretary. It is expected that a second Loan Officer will be hired to work under the program in FY 1989.

Office of Research and Evaluation

ADF will establish an Office of Research and Evaluation in FY 1986. This Office will be primarily responsible for overseeing the development and implementation of research and evaluation activities initiated by ADF. ADF-assisted research and evaluation activities will remain within the jurisdiction of the Program Review Committee. Staffing of the newly created Office will occur within the following time frames:

- Two staff persons (a Director of Research and Evaluation and a Secretary) will be hired in FY 1986.
- By FY 1987 a Project Officer for Research will be employed; and in FY 1988 Project Officers for Evaluation and Public Affairs, along with an additional Secretary, will be hired.

Office of the President

It is anticipated that as the scope of work undertaken by ADF in implementing its planned increases, there will be increased administrative and other organizational demands placed on the Foundation's President and his immediate staff. In response to such demands, the following positions will be added to the Office of the President:

- An Assistant General Counsel will be hired in FY 1987 to serve primarily as a compliance officer under the supervision of ADF's General Counsel.
- An Executive Assistant will be employed in FY 1987 to provide additional administrative support to the Foundation's President and Vice President in an effort to meet the anticipated increase in the overall managerial needs.
- A third Secretary will also be hired in FY 1987 because of a projected increase in administrative staff within the President's Office.
- Finally, a Division of Public Affairs will be created within the Office of the President in FY 1987. The Division will have primary responsibility for achieving those objectives and strategies of the Five-Year Plan related to the implementation of public education and knowledge transfer activities. A Director of Public Affairs and a Secretary will be hired to staff this Division in FY 1987.

CONCLUSION

The economies, political stability, and social viability of African nations are inextricably tied to the expansion of opportunities for the people of Africa to determine their own destinies and to participate in and maximally benefit from the Africa's development. Knowledge gained from years of administering development assistance programs indicates that successful development initiatives in the African context must be targeted to Africans in the urban community and village settings. Successful strategies require the active participation of Africa's poor majority in the design, implementation, management and evaluation of the strategies. ADF was created by the U.S. Congress to support such initiatives.

The Long-Range Plan for FY 1986 through FY 1990 was developed to assist the Foundation in its endeavors to steer a course that will indeed bring development resources within the reach of Africa's poor majorities. Its implementation will not be easy, but the worthy task for which it was developed should motivate ADF to meet its objectives.

APPENDIX A

TITLE V OF PUBLIC LAW 96-533

The African Development Foundation Act

Public Law 96-533
96th Congress

An Act

To authorize appropriations for the fiscal year 1981 for international security and development assistance, the Peace Corps, and refugee assistance, and for other purposes.

Dec. 16, 1980
[H.R. 6942]

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

International Security and Development Cooperation Act of 1980
22 USC 2151 note.

SHORT TITLE

SECTION 1. This Act may be cited as the "International Security and Development Cooperation Act of 1980".

TITLE V—AFRICAN DEVELOPMENT FOUNDATION

African Development Foundation Act

SHORT TITLE

SEC. 501. This title may be cited as the "African Development Foundation Act". 22 USC 290h note

FINDINGS

SEC. 502. The Congress finds that— 22 USC 290h

(1) social and economic development ultimately depends on the active participation of individuals within a society and on the enhancement of opportunities for those individuals;

(2) the development of individuals and institutions in African countries can benefit by the provision of support for community-based self-help activities;

(3) by enacting title IX of chapter 2 of part I of the Foreign Assistance Act of 1961, and recent amendments to that Act, the Congress has sought to enable the poor to participate in the process of development; 22 USC 2218

22 USC 2151 note (4) the Inter-American Foundation, established by Congress in the Foreign Assistance Act of 1969 to support the efforts of the people of Latin America and the Caribbean to solve their development problems, has demonstrated a successful approach to development; and

(5) an African Development Foundation similar in structure to the Inter-American Foundation, but adapted to the specific needs of Africa, can complement current United States development programs in Africa.

ESTABLISHMENT

22 USC 290h-1 SEC. 503. (a) There is established a body corporate to be known as the "African Development Foundation" (hereafter in this title referred to as the "Foundation").

(b) The Foundation shall establish a principal office in the United States and may establish such branch offices in Africa as may be necessary to carry out its functions.

PURPOSES

22 USC 290h-2 SEC. 504. (a) In order to enable the people of African countries to develop their potential, fulfill their aspirations, and enjoy better, more productive lives, the purposes of the Foundation shall be—

(1) to strengthen the bonds of friendship and understanding between the people of Africa and the United States;

(2) to support self-help activities at the local level designed to enlarge opportunities for community development;

(3) to stimulate and assist effective and expanding participation of Africans in their development process; and

(4) to encourage the establishment and growth of development institutions which are indigenous to particular countries in Africa and which can respond to the requirements of the poor in those countries.

(b) The Foundation shall carry out the purposes specified in subsection (a) in cooperation with, and in response to, organizations indigenous to Africa which are representative of the needs and aspirations of the poor in Africa and, in carrying out such purposes, the Foundation shall, to the extent possible, coordinate its development assistance activities with the activities of the United States Government and private, regional, and international organizations.

FUNCTIONS

Grants and loans
22 USC 290h-3.

SEC. 505. (a)(1) In order to carry out the purposes set forth in section 504, the Foundation may make grants, loans, and loan guarantees to any African private or public group, association, or other entity engaged in peaceful activities for—

(A) the fostering of local development institutions and the support of development efforts initiated by communities themselves;

(B) the development of self-evaluation techniques by participants in projects supported under this section, for the purpose of transferring experience gained in such projects to similar development activities;

(C) development research by Africans and the transfer of development resources, expertise, and knowledge within Africa;

(D) the procurement of such technical or other assistance as is deemed appropriate by the recipient of such grant, loan, or guarantee, to carry out the purposes of this title; and

(E) other projects that would carry out the purposes set forth in section 504.

(2) The total amount of grants, loans, and loan guarantees that may be made under this section for a project may not exceed $250,000.

(3) The Foundation may disseminate to the American public and to United States and multilateral development institutions insights gained from African development projects assisted under this title.

(b) In making grants, loans, and loan guarantees under subsection (a), the Foundation shall give priority to projects which community groups undertake to foster their own development and in the initiation, design, implementation, and evaluation of which there is the maximum feasible participation of the poor. Where appropriate and in keeping with the purposes of this title, the Foundation may make such grants, loans, and loan guarantees to African entities which are representative and knowledgeable of, and sensitive to, the needs and aspirations of the poor and which would disburse funds acquired under such grants, loans, and loan guarantees to other African entities to carry out the purposes of this title.

POWERS

SEC. 506. (a) The Foundation, as a corporation— 22 USC 290h-4.

(1) shall have perpetual succession unless dissolved by an Act of Congress;

(2) may sue and be sued, complain, and defend, in its corporate name in any court of competent jurisdiction;

(3) may adopt, alter, and use a seal, which shall be judicially noticed;

(4) may prescribe, amend, and repeal such rules and regulations as may be necessary for carrying out the functions of the Foundation;

(5) may make and perform such contracts and other agreements with any individual, corporation, or other private or public entity however designated and wherever situated, as may be necessary for carrying out the functions of the Foundation;

(6) may determine and prescribe the manner in which its obligations shall be incurred and its expenses allowed and paid, including expenses for representation not exceeding $10,000 in any fiscal year;

(7) may, as necessary for carrying out the functions of the Foundation, employ and fix the compensation of not to exceed the following number of persons at any one time: 25 during the fiscal year 1981, 50 during the fiscal year 1982, and 75 thereafter;

(8) may lease, purchase, or otherwise acquire, own, hold, improve, use, or otherwise deal in and with such property (real, personal, or mixed) or any interest therein, wherever situated, as may be necessary for carrying out the functions of the Foundation;

(9) may accept gifts or donations of services or of property (real, personal, or mixed), tangible or intangible, in furtherance of the purposes of this title;

(10) may use the United States mails in the same manner and on the same conditions as the executive departments of the Government;

(11) may, with the consent of any agency of the United States, use the information, services, facilities, and personnel of that agency in carrying out the purposes of this title; and

(12) shall have such other powers as may be necessary and incident to carrying out this title.

(b) The Foundation shall be a nonprofit corporation and shall have no capital stock. No part of its revenue, earnings, or other income or property shall inure to the benefit of any of its directors, officers, or employees, and such revenue, earnings, or other income or property shall only be used for carrying out the purposes of this title. No director, officer, or employee of the corporation shall in any manner directly or indirectly participate in the deliberation upon or the determination of any question affecting his or her personal interests or the interests of any corporation, partnership, or organization in which he or she is directly or indirectly interested.

(c) The Foundation, including its franchise and income, shall be exempt from taxation now or hereafter imposed by the United States, by any territory or possession of the United States, or by any State, county, municipality, or local taxing authority.

(d) Upon termination of the corporate life of the Foundation its assets shall be liquidated and, unless otherwise provided by Congress, shall be transferred to the United States Treasury as the property of the United States.

MANAGEMENT

Board of directors.
22 USC 290h-5.

SEC. 507. (a)(1) The management of the Foundation shall be vested in a board of directors (hereafter in this title referred to as the "Board") composed of seven members appointed by the President, by and with the advice and consent of the Senate. The President shall designate one member of the Board to serve as Chairperson of the Board and one member to serve as Vice Chairperson of the Board. Five members of the Board shall be appointed from private life. Two members of the Board shall be appointed from among officers and employees of agencies of the United States concerned with African affairs. All members of the Board shall be appointed on the basis of their understanding of and sensitivity to community level development processes.

Terms.

(2) Members of the Board shall be appointed for terms of six years, except that of the members first appointed, as designated by the President at the time of their appointment, two shall be appointed for terms of two years and two shall be appointed for terms of four years. A member of the Board appointed to fill a vacancy occurring before the expiration of the term for which that member's predecessor was appointed shall be appointed only for the remainder of that term. Upon the expiration of his or her term a member shall continue to serve until a successor is appointed and shall have qualified.

Expenses.

(b) Members of the Board shall serve without additional compensation, but may be reimbursed for actual and necessary expenses not exceeding $100 per day, and for transportation expenses, while engaged in their duties on behalf of the Foundation.

Quorum.

(c) A majority of the Board shall constitute a quorum.

President.

(d)(1) The Board of Directors shall appoint a president of the Foundation on such terms as the Board may determine. The president of the Foundation shall receive compensation at a rate not to exceed that provided for level IV of the Executive Schedule under section 5315 of title 5, United States Code.

45 FR 69206.
Experts and consultants.

(2) Experts and consultants may be employed by the Board as authorized by section 3109 of title 5, United States Code.

(e)(1) The Board shall establish an advisory council to be composed of such number of individuals as may be selected by the Board from among individuals knowledgeable about development activities in Africa. The advisory council may include African recipients of grants, loans, or loan guarantees under this title.

Advisory council

(2) The Board shall, at least once each year, consult the advisory council concerning the objectives and activities of the Foundation.

(3) Members of the advisory council shall receive no compensation for their services but may be allowed travel and other expenses in accordance with section 5703 of title 5, United States Code, which are incurred by them in the performance of their functions under this subsection.

Expenses.

GOVERNMENT CORPORATION CONTROL ACT

SEC. 508. The Foundation shall be subject to title I of the Government Corporation Control Act.

22 USC 290h-6.
31 USC 846.

LIMITATION ON SPENDING AUTHORITY

SEC. 509. Any authority provided by this title involving the expenditure of funds (other than the funds made available pursuant to section 510) shall be effective for a fiscal year only to such extent or in such amounts as are provided in advance in appropriation Acts.

22 USC 290h-7.

USE OF CERTAIN FUNDS

SEC. 510. Of the funds appropriated for the fiscal year 1981 to carry out part I of the Foreign Assistance Act of 1961, other than funds appropriated for the Economic Support Fund, $2,000,000 shall be used to carry out this title.

22 USC 290h-8.
22 USC 2151.

EXPIRATION OF AUTHORITIES

SEC. 511. The authority of the Foundation to make grants, loans, and loan guarantees and otherwise to carry out the purposes of this title shall expire on September 30, 1985, except that this section shall not preclude the Foundation from acquiring obligations prior to that date which mature subsequent to that date or from assuming liability prior to that date as a guarantor of obligations which mature subsequent to that date or from continuing as a body corporate and exercising any of its powers subsequent to that date for purposes of the orderly liquidation of its activities.

22 USC 290h-9.

APPENDIX B

LEGISLATIVE INTENT REPORT

Title V of Public Law 96-533

AFRICAN DEVELOPMENT FOUNDATION ACT

Vision to Reality

> Recognizing the challenge before us of strengthening our relationships with the nations and people of Africa, it is imperative that the United States extend a form of foreign assistance which recognizes, respects, and supports the efforts of African communities to chart their own development course. The creation and work of an African Development Foundation will constitute a firm and concrete commitment on our part to this most important goal.[1]
>
> Congressman William H. Gray III

The visions and intentions of the Congressional framers regarding ADF's mission and operations are embodied in Title V of Public Law 96-533 (the African Development Foundation Act of 1980). ADF conducted a detailed analysis of Title V and accompanying bills and conference and committee reports.

The following descriptions and analyses correspond to the substantive sections of Title V and trace the development of major provisions of the Act and the legislative intentions of its framers.

Section 502 (1) Findings. Social and economic development strategies in Africa require the participation of indigenous individuals in those strategies. Their participation can only be realized if opportunities for participation exist and are expanded within the context of individual empowerment; that is, those experiencing the problems and immediately affected by them must actively participate in the design of solutions to those problems.

The Development Group for Alternative Policies' Report--*U.S. Foreign Assistance to Africa: A New Institutional Approach* was entered into the *Congressional Record* on June 26, 1978. The report indicates that traditional development assistance under optimal conditions, only enhances the opportunities for participation of the upper economic echelons of developing societies--the top 25 to 40 percent.[2] Organizations providing development assistance in the traditional mode, then, are not structured to expand opportunities for the majority of individuals in African countries receiving assistance. When the first versions of ADF legislation (S. 1348, H.R. 8130) were introduced, the recognition of the participation of indigenous individuals in development was included in the findings. Senator Kennedy, in introducing S. 1348, stated that "enhancing a community's potential to shape its own fate ultimately will determine the success of development. Leaving it to others to interpret and act on a community's needs and aspirations denies and undermines the ability to generate future development."3

Representative Don Bonker, in introducing H.R. 8130, stated that "in attempting to delineate a new and resourceful policy toward the nations of Africa care must be taken to respond to the legitimate concerns expressed by Africans themselves. Foremost among these are two interrelated issues: self-determination and self-development."[4] Later proposals (H.R. 5509, H.R. 6942) continued to reflect the critical relationship of individual participation to success in development.

502 (2). Supporting community level self-help activities is viewed in the ADF Act as contributing to the "development of indigenous individuals and institutions." All versions of this subsection in the ADF bills and Act are similar. Hearings' testimony indicate that the self-help development activities at the local level rarely receive support from the U.S. development, assistance agencies.[5] While many private voluntary organizations (PVOs) operate at this level, the support is not for indigenous, self-help activities. The Peace Corps operates at this level. However, the Peace Corps "lacks both the mandate and capacity to follow-up with financial and other more lasting and consistent forms of assistance which leave development squarely in the hands of its participants."[6]

502 (3). Congress clearly enunciated its position on and commitment to the inclusion of poor people in the development process when it enacted Title IX, Chapter 2, Part I of the Foreign Assistance Act of 1961 and recent amendments to that Act. Creating ADF was viewed as a vehicle for implementing the Congressional mandate of including Africa's poor in the development process. The ADF Act cites the 1961 and other legislation. Senate Bill 1348 and H.R. 8130 also cite specifically the Foreign Assistance Act of 1975; H.R. 6288 and H.R. 5509 cite the 1973 Foreign Assistance and the 1975 Food Assistance Acts. H.R. 6942's language, in fact, is the same as that contained in the ADF Act. Recent amendments to the 1961 Foreign Assistance Act are also cited. The amendments include the Foreign Assistance Acts of 1973 and 1978 and the Food and Assistance Act of 1975.

502 (4). Because the Inter-American Foundation (IAF) approach to supporting the self-help development activities of indigenous people in Latin America is successful, the ADF (in concept) was established to implement a similar mission in Africa. Thus, IAF's involvement and cooperation with USAID's planners and Congressional sponsors were critical to the development of the ADF concept.

502 (5). An ADF, similarly structured like IAF, is designed to meet the "specific needs" of Africa. ADF, created as an independent organization, complements current U.S. development assistance programs in Africa.

During the 1977 Congressional hearings on H.R. 8130, several major distinctions between the operating environs of IAF and the then proposed ADF were identified. The distinctions were outlined by Fred O'Regan as follows: "Among these, is a much greater diversity in terms of ethnicity and culture in Africa, including linguistic considerations."

He stated further that:

> There is a less developed physical and economic infrastructure in relation to, for example, Latin America where the Inter-American Foundation operates.

> There is a correspondingly greater indigenous private sector, and generally, a correspondingly greater presence of government in development activities, especially in regard to conventional foreign assistance.[7]

The structure of ADF reflects these differences where appropriate. For example, the inclusion in Sec. 503(b) of a provision that allows ADF to establish a field presence in Africa is one such difference between the two.

Subsection 5 of Section 502 also gives an indication of how ADF is to be viewed in relation to other U.S. development assistance agencies. Most ADF bills (S. 1348, H.R. 8130, H.R. 5509 and H.R. 6942) would require ADF to act as a "complement" to other U.S. development assistance initiatives. As a complement, ADF provides assistance in those areas where current development assistance in Africa is not addressed. The areas identified as "gaps" in the Part I of this report serve as guides for ADF's direction. Acting as a complement to current development assistance programs, ADF was established as an independent entity.[8]

> Beyond that, I think that the effectiveness of the Foundation would be enhanced by a series of informal relationships in the field with other development institutions. For example, an African organization funded by ADF might seek necessary technical assistance from an American PVO. Peace Corps volunteers in the field could play an important role in helping to identify fundable initiatives, and indigenous organizations. ADF might help to make them viable and sustaining. On an ongoing basis they may apply to AID, or to a multilateral institution, for further funding once they become more identifiable and more structured to do so.
>
> Such interrelationships, I believe, would probably be more positive if left on an informal and flexible basis. And thus the Foundation should be allowed to pursue its own road to development, its own strategies and its own directions, and then be able to make those decisions perhaps at the board of directors level.[9]

This interpretation is supported by the reality that H.R. 6288 refers to ADF as a "supplement" to current U.S. development assistance. As a supplement, ADF complements other U.S. development assistance programs.

Section 503 Establishment. Section 503 of the Act authorizes the creation of ADF as a public, corporate entity with headquarters in the United States and allows, but does not require, ADF to establish field offices in Africa. Senate 1348 and H.R. 8130, the first of the ADF bills, would not have allowed ADF to establish permanent offices outside of the United States. H.R. 8130 would not have allowed ADF to establish "permanent" offices in Africa, but allowed for the establishment of temporary offices. Hearings in the House regarding H.R. 8130 included testimony from Dyal, then president of IAF. He indicated that IAF never established a permanent presence outside of the United States in order to allay any fears of indigenous people that IAF had "hidden agendas," was a front for the CIA or was tied to short-term U.S. policy interests. This arrangement, Dyal felt, was critical to establishing a relationship with grantees built on trust.

However, even in his testimony as well as others, differences in the indigenous populations served by IAF and the prospective ADF were highlighted. For example, IAF is a lot closer geographically to grantees in Latin America than ADF would be to grantees in Africa. IAF also serves less diverse populations and fewer countries. Fred O'Regan testified that "I think that the Foundation may want to entertain the possibility of opening up regional offices or having regional representation of a limited number, perhaps stationed in Africa. This may be necessary given the size of the continent and the number of countries to cover."[10]

Later versions of ADF legislation (H.R. 5509, H.R. 6942 and the ADF Act) include provisions that allow ADF to establish branch offices in Africa if deemed necessary for conducting its business.

Section 504 (a) Purpose. A major goal of creating an ADF is to provide the means to Africans to develop, and "enjoy better, more productive lives." Testimony presented during Congressional hearings on ADF proposals indicated that traditional U.S. development assistance strategies were designed to respond to the needs and aspirations of the national governments of Africa.[11] However, the reality of the failures of "trickle down" development is well documented. Such strategies do not reach the majority of Africans for a number of reasons, including deficiencies in the host country's infrastructure, magnitude of the demands and needs put on national governments, and the very nature of donor investment strategies. Thus, testimony indicated that the current U.S. development assistance strategy must be amended to target benefits to the people of Africa, not just to national governments.[12]

Four purposes or goals are included in the legislative proposals and the ADF Act to support the expansion of opportunities for indigenous participation in development and benefits from development activities.

504 (a)(1). The first goal or purpose is "to strengthen the bonds of friendship" and understanding between the people of America and those of Africa. When introducing the first House version of the ADF bill (H.R. 8130), Congressman Bonker indicated that "If we can demonstrate integrity in supporting the efforts of Africans to forge better lives for themselves, their communities, and their countries, we shall greatly enhance and strengthen our bonds of friendship with the peoples of that continent."[13]

504 (b)(2). The second goal provides support for indigenous, self-help, community development initiatives. Testimony at ADF hearings indicate that most traditional development assistance strategies do not provide support to community development programs that are designed, implemented and evaluated by indigenous African people at the local level.[14] Community (local level) development includes social and economic strategies that seek to promote positive changes (social, economic and quasi-political) for the people and places, characterized as "grassroots" in Africa. When the witnesses at the hearings and the framers referred to community development, their references were much broader than economic investments. Their perspective can be described as a more holistic approach for providing assistance aimed at improving the quality of life opportunities of African at the local level. These quality of life opportunities are to be identified by Africans themselves. Supporting self-help opportunities is also justified on the basis that such support would allow architects of major donor strategies to identify successful, indigenous approaches that work.[15]

504 (a)(3). The third major purpose for creating ADF is to provide support to expand the role and participation of Africans in development.

The design of traditional development assistance strategies normally does not include input from most Africans because donors and/or expatriates often design the strategies. As a result, many of these traditional donor strategies are rendered less effective because they include very little input from those intended to benefit from the assistance. While participation in the implementation of traditional development assistance may include indigenous people, their role is characterized as being limited and nonexistent in the evaluation phases of development strategies.[16]

504 (a)(4). A fourth major consideration in the hearings was the inclusion of the poor in the development processes. Again, as indicated in the testimony, benefits from traditional development assistance strategies do not "trickle down" to the poor. All ADF proposals--with the exception of S. 1348, the first version of the ADF proposals for which no hearings were held--would have addressed the role of the poor in development by encouraging "the growth of private and governmental, indigenous, democratic institutions which can respond to the requirements of the poor majority of Africans."

The next version of the ADF proposal (H.R. 8130) sought "to encourage the establishment and growth of indigenous development institutions which can respond to the requirement of the poor in Africa." In the latter version the emphasis on "private and governmental" and the democratic nature of institutions that would receive ADF's support was eliminated. The language in H.R. 5509 is the same as in H.R. 8130. However, H.R. 6942 contains the language that was subsequently included in the ADF Act. The meaning of H.R. 6942 and the ADF Act's objective regarding the poor is substantially different from earlier versions of ADF bills. In H.R. 6942 and the ADF Act, the objective of encouraging the development of institutions "that can respond to the requirements of the poor" would require assistance to go to institutions that will operate within the country of origin. The ADF Act specifically states that a major purpose is "to encourage the establishment and growth of development institutions which are indigenous to particular countries in Africa and which can respond to the poor in those countries." The framers did not intend for ADF to foster the development of indigenous institutions that serve the poor in more than the country of origin.

504 (b). This subsection authorizes ADF to work cooperatively with indigenous African organizations that can demonstrate that they represent the "needs and aspirations of the poor." ADF must also work, "to the extent possible," in a coordinated manner with the U.S. government's activities and those of "private, regional, and international organizations."

Clearly the framers of the ADF Act intended that ADF's support (grants, loans and loan guarantees), in achieving its mandated goals, should go only to indigenous organizations that can demonstrate that they are representative of the "needs and aspirations of the poor" of the country within which each operates. Thus, ADF is to be responsive to poor peoples' organized efforts. It was not created to provide support to organized efforts that are put forth solely or primarily to benefit more affluent Africans.

In determining what is meant by the requirements that ADF "coordinate" its development assistance activities with the activities of other U.S. government agencies, the testimony given during the hearings provides a clear description of the type of coordinated relationships ADF is to forge and maintain with other U.S. foreign assistance agencies. The testimony indicates ADF, as a complement to other U.S. development assistance strategies, would provide support to small grassroots efforts that in time would be readied to participate in other development assistance activities funded through other U.S. public and private channels. On a day-to-day functional level, coordination requires that ADF touch base with U.S. personnel in the countries where ADF operates and share information on the results of ADF projects with these individuals at home and abroad.[17]

Early versions of ADF legislation (S.1348, H.R. 8130, H.R. 5509, and H.R. 6942) would have had ADF complementing "activities of private, regional, and international organizations."

Section 505 (a)(1) Functions. ADF is authorized to make grants, loans, and loan guarantees in order to achieve the objectives outlined in Sec. 504. ADF's resources may go to "any African private or public group, association or other entity engaged in peaceful activities." (A detailed discussion of the restrictions on types of organizations to be funded through ADF appears in Section 505(b).) The phrase "engaged in peaceful activities" does not appear in any of the ADF bills and was added shortly before P.L. 96-533 (the ADF Act) was passed.

ADF is to provide grants, loans, and loan guarantees for the five major categories described below.

505 (a)(1)(A). The first strategy category uses ADF's resources to promote the growth of grassroots (local level) development institutions and self-initiated (self-help) community development efforts. S. 1348's emphasis is quite different from what was finally included in P.L. 96-533. Senate Bill 1348 sought "to build local institutions" and develop innovative relationships with intermediary organizations. H.R. 8130, S. 1348's counterpart in the House, introduced during the first session of the 95th Congress, contains language that is very similar in meaning to Sec. 505(a)(1)(A) of the Act. The adoption of the latter bills' emphasis in the ADF Act indicates that the thrust to ADF's resources to solidify linkages between grassroots organizations and intermediary organizations was not affirmed by its framers.

505 (a)(1)(B). ADF is authorized to encourage "the development of self-evaluation techniques by participants" in ADF projects in order to facilitate the transfer of knowledge regarding self-help community development strategies at the local level. Senate Bill 1348 would have authorized ADF to support evaluation strategies that would allow for the transfer of experiences. It did not focus on self-evaluation by participants in projects. H.R. 8130 shifts the emphasis to "self-evaluations." This emphasis is reflected in all other House versions of ADF bills, as well as in the enabling legislation.

505 (a)(1)(C). The Foundation is authorized to the fund development research activities of Africans. It is also authorized to fund activities that would lead to a transfer of knowledge concerning development "resources, expertise, and knowledge within Africa."

When introducing S. 6143 Senator Edward Kennedy described the provision of support for indigenous participation in development research as a major function of the proposed ADF. Congressman William H. Gray III later supported Senator Kennedy's position when he introduced H.R. 5509." The Foundation will support practical, field-oriented research by Africans while facilitating the interchange within Africa of development experience, resources, and technical knowledge." In fact, all versions of ADF legislation call for the provision of support to development research by Africans and the dissemination of the knowledge and expertise gained throughout the continent.[18]

505 (a)(1)(D). Another major function of ADF in P.L. 96-533 is the provision that allows recipients of ADF support to procure appropriate "technical or other assistance" in order to carry out the objectives of the Act. ADF was created to foster the growth and establishment of indigenous development institutions, both economic and social, that are created and maintained by Africans. The framers of the ADF Act did not intend for ADF employees to become involved in providing technical assistance or "other assistance" for fear that ADF's provision of technical or other assistance would violate the independence and self-determination of Africans, ADF's self-help philosophy, and objectives set forth in Sec. 504 of the Act.

Senate Bill 1348 contains no provision that corresponds to (a)(1)(D) of Sec. 505. However, H.R. 8130 and all other House versions of the Act contain this provision.

505 (a)(1)(E). ADF can provide support to "other projects that would carry out" the goals (purposes) in Sec. 504. The Senate version 1348 does not include this provision. However, H.R. 8130 and all other House versions of the Act contain this provision.

505 (a)(2). A single project supported through ADF's grants, loans, and loan guarantees may not receive more than $250,000 in ADF support. This provision is neither contained in the Senate ADF bill nor in earlier House versions of ADF legislation (H.R. 8130, H.R. 6288 or H.R. 12743). It is included in the last draft of the bill (H.R. 6942) only, and in the Committee Conference Report accompanying H.R. 6942. However, the measure to include a ceiling on ADF funding per project is not addressed in the Hearings and Markup of the 96th Congress, second session, regarding ADF specifically. In testimony given by Dyal, in response to questions put to him by Rep. Solarz, Dyal stated that there are no limits on IAF's grant size but that the average amount per project is $100,000. IAF has provided support to the tune of $2 million to "a single entity."

Other testimony and statements of the framers indicate that they intended ADF to provide small amounts of support to indigenous African development initiatives.[19]

Even though ADF is limited by funding ceiling per project, it is not limited in the amount that it may provide an organization. In other words, an organization may receive funds for any number of projects although there is a funding limit on the amount ADF can commit to an individual project.

505 (a)(3). This segment authorizes ADF to disseminate information gleaned from African development projects to the U.S. public, development assistance agencies, and multilateral development institutions. Congressman Gray and Senator Kennedy both referred to this provision when they introduced H.R. 5509 and S. 1348. Congressman Gray clearly states his intentions regarding this function when he said that "It will also be a function of the foundation to disseminate to the American public and the international development community important findings that emerge from its analysis of successful, locally initiated projects. This should make it easier for us to continually learn from our experience and to adapt our assistance programs to the needs of poor Africans."[20]

When introducing the first version of the ADF legislation, Senator Kennedy stated that "It will be a function of the Foundation to disseminate to the American public and to other U.S. development institutions its experiences. This, in the last analysis, is a strong justification in itself for the creation of a new foundation for it will move both Americans and Africans toward a clearer understanding of one another and of the tortuous path toward development."[21] Senate Bill 1348's emphasis was on the dissemination of knowledge regarding African development experiences within the U.S. only and H.R. 8130 includes these audiences in addition to multilateral development institutions. H.R. 8130's audiences are included in the ADF Act. It is also interesting to note that the Act "allows" this function and does not require it. However, the framers clearly expected ADF to develop functional strategies to inform the stated audiences concerning African development projects.

505 (b). This subsection prioritizes the types of projects supported through the functions authorized in subsection (a). Priority in providing ADF grants, loans, and loan guarantees shall be given to the self-help projects of community groups and projects that include the "maximum feasible participation of the poor in the initiation, design, implementation, and evaluation" phases of the projects. Where appropriate, ADF can provide support to intermediary organizations. These organizations must demonstrate their sensitivity to the needs and goals of the poor. Intermediary organizations are only to distribute ADF's funds to "other African entities" for the purpose of carrying out the objectives in section 504. Intermediary organizations cannot receive ADF support to provide direct services.

The corresponding subsection (b) in S. 1348 is very similar to this subsection. However, two major differences appear: (1) S. 1348 would give priority to funding projects that were initiated by community groups that include the maximum feasible participation of the poor in the design and implementation and evaluation phases of the project; and (2) S. 1348 would authorize the funding of intermediary organizations capable of demonstrating that they are "knowledgeable and representative" of the "needs and aspirations" of the poor. This first version of the ADF bill did not limit the role of intermediary organizations to passing on resources to more grassroots organizations. In fact, as was alluded to earlier, Senator Kennedy would have used the ADF to foster the creation of "innovative" linkages between grassroots and intermediary organizations. However, this perspective was not affirmed in the Act. The corresponding subsections in H.R. 8130, H.R. 6288, and H.R. 5509 are almost identical in meaning to S. 1348. This subsection of the Act clearly limits and defines the scope and role of (intermediary) organizations in ADF's attempt to achieve its mandated objectives (purposes).

Section 506 (a) Powers. The Foundation, as a corporation:

(1) Shall have perpetual succession unless dissolved by an Act of Congress;

(2) May sue and be sued, complain, and defend, in its corporate name in any court of competent jurisdiction;

(3) May adopt, alter, and use a seal, which shall be judicially noticed;

(4) May prescribe, amend, and repeal such rules and regulations as may be necessary for carrying out the functions of the Foundation;

(5) May make and perform such contracts and other agreements with any individual, corporation, or other private or public entity--however designated and wherever situated, as may be necessary for carrying out the functions of the Foundation;

(6) May determine and prescribe the manner in which its obligations shall be incurred and its expenses allowed and paid, including expenses for representation not exceeding $10,000 in any fiscal year;

(7) May, as necessary for carrying out the functions of the Foundation, employ and fix the compensation of not to exceed the following number of persons at any one time: 25 during FY 1981, 50 during the FY 1982, and 75 thereafter;

(8) May lease, purchase, or otherwise acquire, own, hold, improve, use, or otherwise deal in and with such property (real, personal, or mixed) or any interest therein, wherever situated, as may be necessary for carrying out the functions of the Foundation;

(9) May accept gifts or donations of services or of property (real, personal, or mixed), tangible or intangible, in furtherance of the purposes of this title;

(10) May use the U.S. mails in the same manner and on the same conditions as the executive departments of the Government;

(11) May, with the consent of any agency of the United States, use the information, services, facilities, and personnel of that agency in carrying out the purposes of this title; and

(12) Shall have such other powers as may be necessary and incident to carrying out this title.

The African Development Foundation Act establishes ADF as a public corporation because its framers felt it had to be flexible in order to respond in a timely fashion to the critical needs of African organizations at the grassroots level. The support ADF was to provide was not intended to be tied to short-range foreign policy objectives. "Such assistance should not be limited, for instance, to short-term U.S. foreign policy objectives. Nor should it be designed to serve to underwrite any ideological panacea, to facilitate multinational corporations investments, or to be politically beneficial to any specific regime."[22] .The corporate model lent itself most appropriately to the purposes of the framers.

Section 506(a) provides the Foundation with the authorities deemed necessary by Congress to carry out its mission as a government corporation. Most of the authorities confer standards for government corporations that allow them to function more or less as agencies of the U.S. Government and, at the same time, exercise some of the flexibility available to private sector corporations.

Of particular note is Subsection (a)(6), which limits expenditures for entertainment to $10,000 in any fiscal year; and Section (a)(9), which authorizes the Foundation to accept donations of gifts and services.

The most unusual provision is Subsection (a)(7), which authorizes ADF to employ up to 25 persons during its first fiscal year of operations, 50 persons during the second fiscal year, and 75 during the remainder of its life. All versions of ADF bills would have allowed ADF to have a total staff of 75 like the IAF, but did not contain the other restrictions limiting the growth of the workforce that were included in the final Act. The addition of this language indicates a cautious approach by the Congress toward the growth of the Foundation.

506 (b). The Foundation shall be a nonprofit corporation and shall

have no capital stock. No part of its revenue, earnings, or other income or property shall insure to the benefit of any of its directors, officers, or employees, and such revenue, earnings, or other income or property shall only be used for carrying out the purposes of this title. No director, officer, or employee of the corporation shall, in any manner, directly or indirectly participate in the deliberation on or the determination of any question affecting his or her personal interests or the interests of any corporation, partnership, or organization in which he or she is directly or indirectly interested and involved.

506 (c). The Foundation, including its franchise and income, shall be exempt from taxation now or hereafter imposed by the United States, by any territory or possession of the United States, or by any state, county, municipality, or local taxing authority.

506 (d). Upon termination of the corporate life of the Foundation its assets shall be liquidated and, unless otherwise provided by Congress, shall be transferred to the U. S. Treasury as the property of the United States.

These subsections contain additional provisions necessary to the establishment of a government corporation, confer tax exempt status on the Foundation and provide for the liquidation of its assets should it be terminated.

Section 507 (a)(1) Management. A seven-member board of directors (the Board) is given the responsibility for the overall management of ADF. Its members are to be appointed by the President of the United States "with the advice and consent of the Senate." The President shall appoint a member to serve as Chairperson and another to serve as Vice Chairperson. Five members are appointed from "private life;" and two are appointed from among the employees of U.S. agencies concerned with Africa. The two major criteria specified in the Act to be used in the selection of ADF's Board are (a) "the understanding of" and (b) the "sensitivity to development processes" at the local level. The sensitivities and knowledge regarding local development processes may be acquired through domestic and/or international experiences.

All (legislative) versions, beginning with H.R. 8130, contain similar provisions regarding the Board's management authority and the selection of the members by the President with the advice and consent of the Senate. The only significant difference that appears regarding these provisions is found in S. 1348, the first ADF bill. The Senate version would have allowed the President to appoint three board members from "among officers and employees of agencies of the United States concerned with African affairs." The President could also have appointed four board members from private life. No criteria to guide the selection of board members are included in S. 1348.

507 (a)(2). Board members shall be appointed for terms of six years with the exception of the first members appointed. The President, when selecting them, appointed two members to serve for two years and two members to serve for four years. (It is assumed that the remaining three members were appointed to serve six-year terms.) When a vacancy on the Board occurs, prior to the expiration of a term, the President must appoint another individual, with the advice and consent of the Senate, to serve out the remainder of the term. When a member's term expires, the board member is to serve until a successor is appointed by the President and the Senate has acted. All legislative versions contain these provisions.

507 (b). Board members may receive up to $100/day for expenses and transportation while performing their duties regarding ADF. They may not

receive "additional compensation" (S. 1348, H.R. 8130, H.R. 6288 and H.R. 5509 would have allowed board members up to $50/day for expenses and transportation). However, H.R. 6942 and the Act allowed for $100/day ceiling on these expenses.

507 (c). The Board is considered to be legally assembled and able to conduct business when at least four of its members are present. This provision is the same in each legislative version.

507 (d)(1). The Board appoints the President "on such terms as the Board may determine" and the President's rate of pay "is not to exceed that provided for level IV of the Executive Schedule under Sec. 5313 of Title V, United States Code."

507 (d)(2). Experts and consultants may be employed by ADF. The terms and conditions of their employment are spelled out in Sec. 3109 of Title V of the U.S. Code.

507 (e)(1). The Act requires the Board to create an advisory council. The members are to be appointed by the Board. All members of the council must be knowledgeable about African development activities. Membership on the council may include indigenous African representatives selected from among ADF's grant, loan or loan guarantee recipients. The intent of the framers clearly calls for the substantive inclusion of indigenous African membership on the council. S. 1348, H.R. 8130, H.R. 6288 and H.R. 5509 include provisions that specifically would call for the council to include representation from among ADF grantees and foreign nationals. When considering foreign assistance legislation in 1980, O'Regan testified that:

> The participation of Africans in the operations of the Foundation itself would be very necessary. I believe that the legislation has a provision for a consultation body of Africans to advise the Board of Directors. Hopefully, the representatives of grantee organizations will eventually be integrated into that committee. I think that it would be helpful to have information on what is going on in the field directly into the Foundation.[22]

507 (e)(2). The Board is to meet with the advisory council at least once annually to obtain its counsel concerning ADF's "objectives and activities." Clues gleaned from the framers regarding the proper role of the Council--particularly from its African members--were entered into the Congressional Record on June 26, 1978. Senator Kennedy, in a move to reaffirm his commitment regarding the creation of an ADF, included the Development Gap's Report (U.S. Foreign Assistance to Africa) in the Congressional Record. This study addresses the advisory role of Africans, in particular, in ADF's operations in the following manner:

> African Advisory Capacities. The effective participation of Africans, both in the projects assisted and in the overall operations of a Foundation, would be a fundamental necessity. Without constant African feedback and advice, an ADF could easily become entrapped in the very syndrome it was created to counter--namely, the proclivity for dictating development from afar.
>
> By law, foreign nationals cannot sit on the Board of a public agency. This, however, does not preclude

> the meaningful involvement of Africans in an effective advisory capacity. Initially, this involvement could be effected through the formation of an advisory board consisting of Africans with recognized expertise in social and community development. This Board could perhaps be composed on a regional basis, complementary to the regional-team structure of the Foundation itself. After operations have begun and a number of projects funded, representatives of grantee organizations and communities should also be included in advisory capacities, either through direct representation on the advisory board or through the formation of special advisory panels composed of project participants. In either case, the Board of Directors should meet with the advisory board(s) on at least an annual basis in order to aid them in their review of the ongoing operations of the Foundation and their examination of its future directions. These meetings would be crucial in determining the directions of both project assistance and learning and dissemination activities in Africa.[23]

507 (e)(3). Compensation is not provided to advisory council members for their services. However, they are to be reimbursed for travel and other expenses related to participation on ADF's advisory council. Rules and regulations describing reimbursement expenses are covered in Sec. 703 of Title V. This provision is contained in all legislative versions.

Section 508 (1) Government Corporation Control Act. ADF is "subject to Title I of the Government Corporation Control Act" (P.L. 79-248). Title I of P.L. 79-248 provides the framework for financial controls governing "wholly owned government corporations." This public law outlines financial accounting, budget preparation and submission schedules for ADF. It also establishes GAO's role in auditing ADF's operations.

Section 509 and Section 510 Limitation on Spending Authority and Use of Certain Funds. Annual appropriations must be spent in the authorized fiscal year, with the exception of funds that are designated as "no year monies." It is interesting to note that S. 1348, H.R. 8130, H.R. 6288 and H.R. 5509 would have authorized $25 million over three fiscal years for ADF. The Foundation would have retained these funds until expended. Instead H.R. 6942 included the requirements that ADF must obligate annual appropriation funds within the designated fiscal year. H.R. 6942 would have authorized $5 million for ADF for FY 1981. P.L. 96-533 finally authorized $2 million for FY 1981. ADF received $4,000,000 in "no year monies." The Hearings and Markup in the House Subcommittee on Africa (1980) indicate that the decisions regarding funding level for ADF were tied to political considerations and the desire to get ADF off of the ground. Congressman Solarz described the funding level dilemma this way:

> You see the problem that confronts us, frankly is that in a very tight budget year...there is not going to be much enthusiasm in Congress for new foreign aid programs that put money into the budget above and beyond what the President has requested.

> The whole tendency would be to cut back from the level that the President has requested.
>
> If we try to put $25 million or $15 million or $10 million into this program above and beyond what the President has requested, there is a very good chance that it will be eliminated on the grounds that in this year of all years, sacrifices have to be made and this is not the time to start something new.[24]

Section 511 Expiration of Authorities. ADF's authority to obligate funds for grants, loans and loan guarantees and other business necessary to carry out its Congressional mandate expires on September 30, 1985. Congressional action, reaffirming its intentions regarding the ADF and the continuation of its authority past September 30, 1985, is required if ADF is to continue to implement Title V of P.L. 96-533. However, absent a Congressional mandate to continue past September 30, 1985, ADF would still possess the right to carry out commitments, obligations and liquidation activities made prior to that date.

NOTES

1. William H. Gray III, "The African Development Foundation Act of 1979," Congressional Record, October 9, 1979, E. 4913.

2. "U.S. Foreign Assistance to Africa: A New Institutional Approach," Congressional Record--Senate, June 26, 1978, S. 9759.

3. Edward Kennedy, "S. 1348. A Bill To Establish the African Development Foundation," Congressional Record--Senate, April 21, 1977, S. 6143.

4. Don Bonker, "The African Development Foundation Act of 1977," Congressional Record, July 1, 1977, E. 1301.

5. To Establish an African Development Foundation, Hearings before the Subcommittee on Africa of the Committee on International Relations, House of Representatives, 95th Congress, 1st session on H.R. 8130, October 13 and 26, 1977, pp 72-73; Foreign Assistance Legislation for Fiscal Year 1981 (Part 7), Hearings and markup before the Subcommittee on Africa of the Committee on Foreign Affairs, House of Representatives, 96th Congress, 2nd session, Economic and Security Assistance Program in Africa, February 7, 12, 13, 20, 25, 26, 27, 28; March 5-6, 1980, pp. 116, 119.

6. "U.S. Foreign Assistance to Africa," op. cit., S. 9759-9760.

7. "To Establish an African Development Foundation, Hearings, "op cit., p. 69.

8. Ibid., pp. 64, 70, 84, 85; "Foreign Assistance Legislation for Fiscal Year 1981 (Part 7), Hearings," op. cit., p. 138.

9. "To Establish an African Development Foundation, Hearing," op. cit., pp. 70-71.

10. "Foreign Assistance Legislation for Fiscal Year 1981 (Part 7), Hearings," op. cit., p. 142.

11. Ibid., pp. 115-19.

12. Ibid.

13. Don Bonker, op.cit.

14. "To Establish an African Development Foundation, Hearings," op. cit., pp. 71-73.

15. Edward Kennedy, op. cit., S. 6143; William H. Gray III, op cit., E.4913, "U.S. Foreign Assistance to Africa.," op. cit., S. 6143.

16. Ibid.

17. "Foreign Assistance Legislation for Fiscal Year 1981 (Part 7), Hearings," op. cit., pp. 126-27, 144-45.

18. "To Establish an African Development Foundation, Hearings," op. cit., pp. 8, 47, 65, 72; "Foreign Assistance Legislation for Fiscal Year 1981 (Part 7), Hearings," op. cit., pp. 115, 144-45.

19. William H. Gray III, op. cit.

20. Edward Kennedy, op. cit.

21. Ibid.

22. "Foreign Assistance Legislation for Fiscal Year 1981 (Part 7), Hearings," op. cit., p. 142.

23. "U.S. Foreign Assistance to Africa," op. cit., S. 9756.

24. "Foreign Assistance Legislation for Fiscal Year 1981 (Part 7), Hearings," op. cit. pp. 148-49.

APPENDIX C

EXAMPLES OF PARTICIPATORY DEVELOPMENT INITIATIVES

Funded by A D F

Botswana

TSWELELOPELE POULTRY PROJECT:
TSWELELOPELE PRODUCTION COOPERATIVE
$3,400 one-time grant

A one-time grant of $3,400 was awarded to the Tswelelopele Production Cooperative to establish an egg production enterprise in a rural village about 60 miles north of the capital city of Botswana. Project funds will be used for housing, feed, and initial transportation costs. Funds from a Swedish donor will be used to hire a project coordinator while a government agricultural officer will provide training in poultry management.

POULTRY MARKET GARDEN PROJECT:
BOITEKO AGRICULTURAL MANAGEMENT ASSOCIATION
$27,288 for two years

The Boiteko Agricultural Management Association in Serowe, Botswana, was awarded a two-year grant for technical assistance and facilities improvement which will enable the group to expand its horticultural activities and develop an egg production enterprise. Project funds will be used by the grantee to achieve the following objectives: to contract for agricultural and business training from an indigenous organization; to develop an improved water system with protective fencing; and to establish a 500-hen layer unit.

Kenya

PARTNERSHIP FOR PRODUCTIVITY (PFP)/KENYA: SMALL ENTERPRISE & CREDIT TRAINING
$184,050 over two-year period

The project will expand business management training and provide access to credit for thirty groups of rural women. This project is based on a successful three-year pilot project in which eighteen (18) women's groups in western Kenya received loans. The collective loan recovery rate was ninety percent (90%). PFP/Kenya is receiving financial assistance for eight additional extension staff to develop rural training teams and increase the level of credit available through a revolving loan fund to expand their operation in six newly targeted districts in western Kenya.

FARMING SYSTEMS KENYA (FSK) LTD.
$58,468 over a one-year period

The aim of this project is to elevate subsistence farmers to the commercial level using a selection criteria system developed by FSK. The project will provide 160 farmers in rural Nakuru with farm management extension training, in-kind credit for crops and livestock, agricultural produce marketing, and a revolving loan fund based on farmer repayment of the credit inputs plus a small fee which will help make FSK self-sufficient.

KENYA DENTAL ASSOCIATION (KDA)/DENTAL APPROPRIATE TECHNOLOGY
$23,000 over a two-year period

The Dental Appropriate Technology project will support the development and testing of two locally fabricated dental units. These units will be available for purchase at approximately one-half the cost of imported units currently being used in Kenya. The two experimental units will be tested in poor rural and urban settings. The local manufacturer will establish a fund from the sale of the final adopted system which will be used to provide loans to newly trained dentists who wish to open practices located in areas of Kenya receiving little or no dental care.

MWENDWA SELF-HELP DAIRY PROJECT
$3,428 over a one-year period

This is a project of the Mwendwa Women's Group. The purpose of this project is to increase the community's income by $1,471. The project will help the self-help women's group establish a small zero-grazing dairy herd and sell their milk and milk products to the existing local dairy cooperative. The Group will use ADF's support to supplement their Harambee Self-Help, local fund-raising in order to purchase four cows, material for cattle shelter construction, cattle feed and medical supplies, hand dairy equipment, a donkey and a cart to haul feed and dairy products. The group is contributing the land and labor.

KENYA WOMEN FINANCIAL TRUST (KWFT)
$67,500 over a one-year period

This project focuses on the expansion of existing management training and credit programs for women involved in small business activities in four rural districts of central Kenya. The ADF grant will enable KWFT to develop a mobile training unit to bring management and credit training to women in rural villages. It will also enable KWFT to hire six extension staff, purchase a four-wheel drive vehicle, and expand their revolving loan fund.

NJOGUINI, GITERO, AND KABATI (NGK) SELF-HELP WATER PROJECT
$149,030 over a one-year period

The objective of this project is to provide sufficient water for domestic use and agricultural irrigation purposes to the three villages referenced above. Ultimately, the project will provide at least one acre of irrigated land for each of the one thousand village farmers' plots. The grant will enable NGK to place an intake on a nearby river to divert water from a higher elevation by laying a large diameter trunk system thirteen kilometers to central locations among the farmers' plots and to construct a twenty thousand gallon water-holding tank. The villages provide all the labor required to lay the pipe. They also raised Harambee funds to supplement the project.

Lesotho

MORIJA VOCATIONAL SCHOOL:
MORIJA CHAPTER, LESOTHO NATIONAL COUNCIL OF WOMEN
$42,804 for three years

A grant was awarded to the Morija Chapter of the Lesotho National Council of Women for the Morija Vocational School. The School is a skills training center providing instruction in typing and handcrafts to twenty-five (25) young women and girls in a rural area south of Lesotho's capital, Maseru. The purpose of the project is to both strengthen and expand the school. Funds will be used principally for further identification of job training needs, equipment and instructors to add machine sewing to the program, and to develop a small garment production unit which will enable the training program to become financially self-sufficient.

VILLAGE DEVELOPMENT FUNDS:
RAMOSEBO VILLAGE COOPERATIVE AND HA SEMATLE VILLAGE COOPERATIVE
$25,707 and $17,584 (respectively) one-time grants

One-time grants were awarded to the Ramosebo Village Cooperative and the Ha Sematle Village Cooperative to establish revolving Village Development Funds. In each village, the initial disbursement of project loan funds will be to cooperative members for start-up costs to establish individual egg production enterprises. Although the egg production units will be individually owned and managed by cooperative members, procurements of inputs (chickens, feed, etc.), transportation and marketing will be organized cooperatively. Loan repayments will form the basis of a revolving Village Development Fund.

MOTENG TRAINING PROJECT:
MOTENG LESOTHO WOMEN IN SELF-HELP (LWSH)
$15,022 for two years

A grant was awarded to the Moteng Chapter of Lesotho Women in Self-Help (LWSH) for a two-year project to strengthen and expand their handknitting and machine sewing efforts. Project funds will be used for technical assistance in marketing, knitting and sewing skills, and management. The project will also provide funds for sewing and knitting machines as training equipment. Finally, the project will enable three women of Moteng LWSH to visit a successful rural garment production center in Swaziland.

LEVI'S NEK TRAINING PROGRAM:
LEVI'S NEK LESOTHO WOMEN IN SELF-HELP
$21,777 for eighteen-months

A grant was awarded to the Levi's Nek Chapter of Lesotho Women in Self-Help for an 18 month project to establish a school uniform and garment production enterprise. The project will provide funds for technical assistance in sewing, marketing, and management; improvement of the group's facilities to enable them to increase their production; and a visit by three group members to a successful rural garment production center in Swaziland.

RESEARCH ON GROUP TRAINING/LESOTHO DISTANCE TEACHING CENTER (LDTC)
$100,719 over a three-year period

The Lesotho Distance Teaching Center (LDTC) is a parastatal, nonformal, educational institution established in 1974, to expand the use of distance teaching methods in Lesotho. This project calls for training modules to be established in six rural areas of Lesotho at which leaders of four to six income-generating groups will meet seven times per year to participate in a program of training in leadership, business management, and related skills. Two control groups will receive traditional, whole-group training in the same subjects. Government extension staff working with these groups will also participate in the training on an informal basis. In addition, program materials, including literature and radio programs, will be developed to support the training program. At the end of the project, the new training methodology will be evaluated and compared for its effectiveness with the LDTC's traditional whole-group method of group teaching.

Liberia

BOYS' TOWN INSTITUTE:
SCHIEFFLIN (MARSHALL TERRITORY) INCOME-GENERATING PROJECT
$104,000 over a three-year period

A $104,000 grant was awarded to Boys' Town Institute to enable the facility to become self-sufficient and to generate agriculture-related learning activities for its residents. Located 45 minutes from Monrovia, this rural facility serves as a home for 150 street children (aged 8-21 years). Funds will be used to construct one piggery house, two chicken houses, a slaughter/freezer house and improve the existing well in order to provide sufficient water year-round. Equipment to be purchased with the grant includes a rice mill, a power generator, a water pump, an incubator, and a feather picker. Anticipated results of the project are improved nutritional status of the boys, an increased capacity of the Institute to provide training and experience in poultry and piggery, and a stronger financial base for the Institute.

Mali

DALAKANA INTEGRATED VILLAGE DEVELOPMENT
$250,000 for a three-year period

This project is designed to improve the standard of living in and around the village of Dalakana by increasing agricultural production, education facilities, health services, and cooperative management. Project funds will assist in the construction of a two kilometer canal to improve the irrigation system, the construction of the village's cooperative storage facility, the completion of a health clinic (already started by the villagers) and the construction of three village classrooms. The project also includes activities to strengthen the cooperative's management capabilities. Villagers are contributing their labor and local building materials.

WOMEN'S DYE CRAFT COOPERATIVE
$13,500 over an eighteen-month period

The purpose of this project is to provide seed money to the members of the Women's Dye Craft Cooperative at Bozola for investment in quality dye craft materials which would allow them to expand production and appeal to a wider market. The Cooperative operates out of one of the poorest sections of Bamako (Mali's capital). The project includes a training component which provides that a literate Malian woman will work closely with the group during the first year of the project to train its members in basic accounting and management skills. The group will also receive training in organizational approaches and better marketing procedures.

UNFM SEGOU/SOKE COOPERATIVE
$74,827 over a three-year period

The Soké Cooperative of the Ségou Section of the National Union of Malian Women (UNFM) plans to expand already existing agricultural activities through the purchase of additional water pumps and the use of a tractor to prepare an additional seventy hectares of land at Soké village. The women are organized into alternating work teams; they plan to grow rice in the rainy season and vegetables in the "off" dry season. Approximately 75 percent of the produce will be marketed in the area of Ségou itself, thus providing income for the Cooperative and providing increased nutritious foodstuffs on the market. It is expected that such increases in production and the planned improvements in marketing strategy will reduce the local prices of vegetables so that more households can afford them.

NARENA VILLAGE DEVELOPMENT PROJECT
$174,485 over three-year period

This project will help improve water management for collective farms in a village of approximately 1,000 people and allow the expansion of rice production to local markets and to Bamako, the Capital of Mali. The project calls for the construction of additional wells, reconstruction of a fallen dike, and the flooding of a basin to increase acreage for rice cultivation. An integrated approach will allow for the foraging of livestock in one-half of the rice fields during the dry season while the other half will be used by 200 village women for vegetable gardening.

Niger

ASSOCIATION DES FEMMES DU NIGER (NIGERIEN WOMEN'S ASSOCIATION)
$249,200 for a three-year period

This grant to the Nigerien Women's Association focuses on strengthening women's rural organizations. In one area, five women's centers will be equipped and staffed to provide basic training in health, sewing, and improved gardening techniques. Two wells will be installed in another area of Niger in response to requests from women in the local Association's Chapter. Thirdly, 11 grain mills will be installed in eleven different villages. Women will participate in grain mill management and up-keep.

Sierra Leone

CHESHIRE HOME-BO SELF-HELP PROJECT
$3,774 over six-month period

The goal of this project is to allow the Cheshire Home in Bo, Sierra Leone to become self-sufficient. The Cheshire Home is an indigenous, non-governmental institution organized in 1961 by local residents to care for disabled children. The project seeks to fulfill four objectives: 1) the purchase of two cassava grinding machines (along with two small motorcycle engines to run them) - one to be used to process gari (a basic food item) the second machine to be rented to local farmers, almost exclusively women, on a user-fee basis; 2) the purchase of locally-made agricultural tools to increase vegetable production and chop wood; 3) the purchase of a new bicycle to facilitate staff chores, and 4) the training of one staff member in the repair and calibration of prosthetic aids for children. All four activities will take place simultaneously.

Zambia

ZCSD SELF-HELP ASSISTANCE FUND:
ZAMBIA COUNCIL FOR SOCIAL DEVELOPMENT (ZCSD)
$81,198 for eighteen-months

The Zambia Council for Social Development was awarded a grant for an eigtheen-month project to expand its self-help fund activities. ZCSD presently operates this fund to support village-level self-help projects such as construction of health centers, village water wells, and school classrooms. ADF funds will be used specifically to identify and fund at least 44 small income-generating projects in two isolated districts of Zambia.

ZAMBIA FLYING DOCTOR SERVICE WATER PROJECT (ZFDS)
$20,795 over a fifteen-month period

This project of the Zambia Flying Doctor Service (ZFDS), an indigenous health care organization, will allow for water wells to be constructed at ten sites in rural Zambia. ADF funds will pay for the equipment and machinery, while ZFDS funds will pay engineering expenses. These wells will be the focus of a health education awareness campaign on water-related concepts and practices. Village Health Committee members will select specific sites for well installation. These members will be trained through a workshop on safe water usage. Workshop participants will organize community labor contributions in well installation and work with their village health worker in a community-wide campaign to teach the uses of water as a health tool.

VILLAGE INDUSTRY SERVICE (VIS) SCOTCH CART REVOLVING FUND
$63,017 over a twenty-month period

VIS is a private agency established to promote cottage industry in rural areas. This organization will receive ADF support to provide training, technical assistance, and establish a revolving fund for school-leavers and others for the development of ox-driven cart (scotch cart) production enterprises. VIS will coordinate training in scotch cart production and bookkeeping skills. An ADF-funded vehicle will be purchased to enable VIS field staff to visit and assist trainees after their training has been completed and the trainees have returned to their home villages to begin cart production.

Zimbabwe

HONDA VALLEY FISH PROJECT
$67,183 over a one-year period

This project, conducted by the Agricultural & Rural Development Authority (ARDA), a parastatal body charged with promoting rural development, will introduce fish farming as a new source of income and encourage fish consumption as an additional source of protein in rural diets in the eastern highland Honda Valley region of Zimbabwe. ARDA will work with a group of communal area farmers to establish a fish pond farming enterprise in the Valley. A series of 12 breeding and 12 production ponds will be built for the production of fish common to Southern Africa. Farmers will be trained by ARDA staff and the Department of Zoology of the University of Zimbabwe in fish farming skills.

NCDPZ SELF-HELP PROJECTS
$12,803 over a one-year period

The National Council of Disabled Persons of Zimbabwe (NCDPZ) will use project funds to assist communities of disabled persons in the rural areas of Kezi, Gutu, and Marange to irrigate and fence agricultural plots. The objective is to help these groups achieve greater self-sufficiency and self-reliance through increased food production. Materials for irrigation and fencing will be purchased by the groups with the assistance of NCDPZ's Development Officer. Group members will install the fencing and irrigation equipment.

ORAP TECHNOLOGIES
$102,998 over a three-year period

This project of the Organization for Rural Associations for Progress (ORAP), a rural development organization comprising a network of groups of rural people cooperatively engaged in activities of rural production, will involve the training of three Village Development Technology workers in developing indigenous technologies and skills to meet community needs in water, health, food, and economic development in general. ADF funding will also be used to establish a Small Projects Fund to facilitate production tasks of the member groups of ORAP. An International Volunteer Service (IVS) volunteer with experience in the area of appropriate technology and three Village Technology Development workers will be recruited and work at the village level to enhance and improve local technologies while identifying priority development needs in their own communities.

SILVEIRA HOUSE DEVELOPMENT FUND
$15,510 over a three-year period

This project will provide funds for a Project Development Fund to be used for grants or loans to groups assisted by Silveira House, an institution established by Zimbabwean Jesuits to provide training to small groups in community development, agriculture, project management, nutrition, and other technical skills. Silveira House field workers will work with groups identifying projects and monitoring project implementation in grain storage, bakeries, and sorghum milling plant construction.

QUESTIONS SUBMITTED BY SENATOR INOUYE

AFRICAN DEVELOPMENT FOUNDATION

Senator Inouye: Is all of ADF's assistance to be provided in the form of grants?

Mr. Robinson: While at the present time we are making only grants, ADF's legislation authorizes the Foundation to make grants, loans and loan guarantees. Included in the Foundation's Five-Year Plan is a strategy that calls for ADF to bring the loan/loan guarantee program on line between FY 1989 and 1990. During the interim, ADF will study similar efforts of other development assistance agencies and identify the most efficient and cost-effective ways of administering the loan and loan guarantee program. ADF also plans to work with Congress and the Office of Management and Budget (OMB) to assure conformity with congressional and executive guidelines and legal requirements.

Senator Inouye: What is the rationale for providing assistance to individuals?

Mr. Robinson: While the legislation does not preclude the Foundation from providing direct assistance to individuals, as a matter of policy the Foundation targets its assistance to indigenous African groups and organizations.

Senator Inouye: Are there any repayment provisions attached to assistance to individuals in the private sector?

Mr. Robinson: Since ADF does not provide direct assistance to individuals, considerations regarding "repayment provisions attached to assistance to individuals in the private sector" do not apply to the activities of the Foundation at this time.

Senator Inouye: How does this "direct approach" augment the effectiveness of resources?

Mr. Robinson: ADF's "direct approach" to the provision of assistance requires the Foundation to target its resources to indigenous non-governmental African organizations that operate at the local levels in urban and rural communities. These organizations must demonstrate that they are controlled by and/or are representative of the needs and aspirations of the African poor majority. Direct targeting of resources to the local level enables ADF to leverage local in-kind contributions in the design, implementation, management and evaluation of their development initiatives.

Senator Inouye: How does channeling resources through government bureaucracies dilute their use and effectiveness?

Mr. Robinson: Congress, in its infinite wisdom, examined the effectiveness of traditional development assistance strategies and the linkages of these strategies to national governments.

The examination led to the creation of the Inter-American Foundation (IAF) and the African Development Foundation. These organizations, laboratories for the US Government, complement the more traditional approaches and provide an opportunity to learn more about effectively delivering development assistance. By delivering assistance direct to indigenous organizations, projects are not subjected to bureaucratic red-tape and pitfalls thus enabling project activities to be quickly and efficiently implemented.

Senator Inouye: You note that ADF seeks to "respond quickly and efficiently to all requests for assistance." Does ADF have any procedure for assisting applicants in the proper completion of an application for assistance?

Mr. Robinson: The mandate for ADF stated by the Congress is to respond to the hopes and aspirations of Africans and African organizations. Thus, the issue of assisting applicants in properly completing applications is a matter to be approached with great caution. Project proposals from applicants must reflect an acceptable level of need, purpose, and some level of local organization capable of pursuing the stated goals and objectives. If the proposal is determined to be an important contribution to the development effort within the country, at the grassroots level, and consistent with ADF's mandate, a field visit to the project site is scheduled by the appropriate Foundation Representative. During the field visit, the Foundation Representative and the applicant discuss vital questions concerning the proposal. The applicant is responsible for preparing an application containing sufficient information to enable ADF to adequately assess the request.

Senator Inouye: How does ADF respond to the needs of new and untried self-help organizations for assistance?

Mr. Robinson: ADF's mandate as stated by Congress is to respond to local, grassroots level self-help groups. Indeed, more often it is these types of organizations which have had the least experience and may be attempting new and untried but innovative approaches to development. ADF has responded with a flexibility to consider such innovative approaches as a means to document lessons to be learned from such development activities. ADF accepts its responsibility to ensure that necessary project support is in place and readily available. The ADF staff conducts rigorous examination of each project in order to determine if all of the ingredients are present such as appropriate technical assistance, management capacity, monitoring and evaluation procedures, record keeping, and accountability measures. It is recognized that such projects represent a certain level of "risk". ADF attempts to minimize risk factors, while concurrently documenting development lessons learned in order to avoid similar future problems, and to disseminate information to development groups throughout the world. The experience of ADF during its first year of operation suggests that one of the key elements in determining success is the level of local commitment and sense of ownership exemplified by the implementing organization.

Senator Inouye: How will the use of indigenous companies and consulting firms "with the established capability to handle necessary requirements" serve to help build local capacity?

Mr. Robinson: A major function of the Foundation, as outlined in the enabling legislation is to provide support for the "procurement of such technical or other assistance as is deemed appropriate by the recipient of such grant, loan, or guarantee, to carry out the purposes of this title...". Using "indigenous companies and consulting firms with 'the established capability'" provides an opportunity for ADF to address this prescribed function. Using such companies and firms to provide technical and other expert assistance affords ADF the opportunity to promote the development of linkages between the entities that possess adequate and appropriate technical and other expert assistance, and the grassroots organizations requiring the technical and expert assistance in order to successfully launch and implement development initiatives.

Senator Inouye: Is there a requirement that these companies and firms hire and train Africans?

Mr. Robinson: ADF's preference is for Africans to be given priority consideration as advisors and technicians on all ADF assisted activities. When possible these local companies and firms will be encouraged to train indigenous persons to execute tasks related to ADF supported activities.

Mr. Inouye: Please provide the committee with a table indicating the most recent position, post, length of tour, and the date tour ended for each member of ADF's professional staff together with their names and current positions.

Mr. Robinson: The information on ADF's professional staff has been assembled and is included in Appendix B for your consideration.

Mr. Inouye: Please provide a listing of ADF professional positions together with the current salary of persons who occupy those positions and the salary earned in the most recent position they held prior to joining ADF's professional staff.

Mr. Robinson: The listing of ADF's professional positions with the current salaries of persons occupying those positions and the salaries earned in the most recent position prior to joining ADF has been prepared and in included in Appendix C for your consideration.

Senator Inouye: The 1700 block of Massachusetts Avenue, N.W. is one of the most prestigious and costly addresses in the City of Washington, D.C. How did the Foundation come to choose this address for the location of its offices?

Mr. Robinson: The site of the African Development Foundation at 1724 Massachusetts Avenue, N.W. was carefully chosen after a thorough search for suitable office space in the downtown Washington area. This area is a neighborhood of embassies, professional offices and non-profit organizations. The Foundation consulted the General Services Administration (GSA) and several commercial real estate firms for assistance in locating its offices. The only space available from GSA that met the Foundation's requirements was not available for seven months from the time the space was required. Subsequently, some thirty locations were surveyed that met the Foundation's criteria, i.e. approximately 5000 square feet, a downtown location, convenient to hotels and the Metro system and at a cost of under $20.00 per square foot. This location provided ADF with the most economically viable selection.

Senator Inouye: What is the rental cost per square foot for your offices?

Mr. Robinson: The rental cost of the Foundation offices is a full service rate of $17.50 per square foot, which is well below the average for office space anywhere in the downtown area of Washington.

Senator Inouye: When the Foundation moved into its offices, was any remodeling required? What was the cost of this remodeling?

Mr. Robinson: The minor modifications made at the time the space was occupied were made at no cost to the Foundation as part of the lease proposal.

Senator Inouye: A substantial amount of the Foundation's activities will entail foreign travel by your professional staff. I do not question the need for travel, but wish to be assured that adequate protection against abuse are in place. What travel regulations has the Foundation issued to its staff?

Mr. Robinson: The Foundation adheres to the Federal Travel Regulations and the Department of State Travel Regulations apply to all travel of members of the Board of Directors, the Advisory Council and all staff members of the Foundation.

Senator Inouye: Is anyone at the Foundation authorized to utilize first class travel? If so, what is the justification for this added expense?

Mr. Robinson: No member of the Foundation is authorized to utilize first class travel including the Board of Directors, Advisory Council and staff personnel.

Senator Inouye: Please provide a detailed description of the Foundation's Proposal Review and Project Management Procedures.

Mr. Robinson: A copy of ADF's Proposal Review and Project Management Procedures is included in Appendix D for your consideration.

Mr. Inouye: Please submit the Foundation's Country Selection and Project Criteria.

Mr. Robinson: Country Selection and Project Criteria are presented in Appendix E for your consideration.

Mr. Inouye: You have noted that the total number of requests received for assistance is far in excess of ADF's available resources. Does ADF refer any of these requests for assistance to USAID, the African Development Fund, or the International Fund for Agricultural Development?

Mr. Robinson: To date, we have made no such referrals. We do expect in the future to identify collaborative opportunities for ADF to work with other US Government agencies. This relationship will assist the Foundation in making appropriate referrals to USAID, the African Development Fund, the International Fund for Agriculture Development and other relevant agencies.

Mr. Inouye: Please provide a listing of the Foundation's Advisory Council's membership.

Mr. Robinson: A listing of the Advisory Council's members has been compiled for your information and is included in Appendix F.

APPENDIX A

FY '84

ADF Funded Projects For FY 1984 and FY 1985

	Country	Project Name	Type	US$ Amount	Funding Period	Status
1.	Botswana	Boiteko Agricutural Management	Grant	27,288	2 years	Implementation Phase
2.	Botswana	Tswelelopele	Grant	3,400	1 year	Conditions Precedent Not Yet Met
3.	Lesotho	Ramosebo Village Development	Grant	25,347	1 year	Implementation Phase
4.	Lesotho	Ha Sematle Village Development	Grant	17,584	1 year	Implementation Phase
5.	Lesotho	Levi's Nek Training Program	Grant	21,777	1.5 years	Conditions Precedent Not Yet Met
6.	Lesotho	Morija Vocational School	Grant	42,804	3 years	Conditions Precedent Not Yet Met
7.	Lesotho	Moteng Women in Self-Help	Grant	15,022	2 years	Conditions Precedent Not Yet Met
8.	Liberia	Boys' Town Institute	Grant	104,000	2 years	Implementation Phase
9.	Mali	Dalakana Integrated Village Development	Grant	250,000	3 years	Implementation Phase
10.	Niger	Association of Nigerien Women	Grant	249,200	3 years	Implementation Phase
11.	Zambia	Zambia Council for Social Development	Grant	81,198	1.5 years	Implementation Phase
	TOTAL	FY 1984		837,620		

FY '85

	Country	Project Name	Type	US$ Amount	Funding Period	Status
1.	Kenya	Dental Appropriate Technology/ Kenya Dental Association DAT/KDA	Grant	23,285	2 years	Approval Documents Being Processed
2.	Kenya	Farming Systems Kenya, Ltd.	Grant	58,468	1 year	Approval Documents Being Processed
3.	Kenya	Kenya Women's Finance Trust	Grant	67,550	1 year	Approval Documents Being Processed
4.	Kenya	Mwendwa Women's Group	Grant	3,428	1 year	Approval Documents Being Processed
5.	Kenya	Njoduini, Gitero, and Kibati (NGK) Self-Help Water Project	Grant	149,030	1 year	Approval Documents Being Processed
6.	Kenya	Partnership for Productivity Enterprise Credit Training	Grant	184,050	2 years	Approval Documents Being Processed
7.	Lesotho	Lesotho Distance Teaching Center	Grant	100,719	3 years	Approval Documents Being Processed
8.	Mali	Narena Village Committee	Grant	178,450	1 year	Approval Documents Being Processed
9.	Mali	Professional Center for Training in Sewing and Tailoring (COPCC)	Grant	15,058	2 years	Approval Documents Being Processed
10.	Mali	Union of Malian Women (UNFM)/ Ségou Sector	Grant	74,827	3 years	Approval Documents Being Processed
11.	Mali	Women's Dye Craft Group (GTB)	Grant	14,500	2 years	Approval Documents Being Processed
12.	Niger	Small Trader Project	Grant	700	1.5 years	Approval Documents Being Processed

FY '85

Country	Project Name	Type	US$ Amount	Funding Period	Status
13. Sierra Leone	Sierre Leone Chesire Self-Help Project	Grant	3,700	1.5 years	Approval Documents Being Processed
14. Zambia	Scotch Cart Project (VIS)	Grant	66,357	1.75 years	Approval Documents Being Processed
15. Zambia	Zambia Flying Doctors Water	Grant	20,795	1.25 years	Approval Documents Being Processed
16. Zimbabwe	Honda Valley Fish Project	Grant	67,183	1 year	Approval Documents Being Processed
17. Zimbabwe	National Council of Disabled Persons (NCDPZ)	Grant	12,803	1 year	Approval Documents Being Processed
18. Zimbabwe	ORAP: Organization of Rural Associations for Progress	Grant	102,998	3 years	Approval Documents Being Processed
19. Zimbabwe	Silvera House Development Fund	Grant	15,510	3 years	Approval Documents Being Processed

TOTAL FY 1985 to DATE 1,159,411

GRAND TOTAL FY 1984 + FY 1985 1,997,031

APPENDIX B

Information on ADF's Professional Staff

Name	Current ADF Position	Most Recent Position	Post (Organization)	Length of Tour	Date T Ended
Beauter, James H.	Contract/Procurement Officer	Consultant	AID/Peace Corps USDA (Nigeria/Botswana	3 years	3/84
Brown, Earl M. Jr.	Director Office of Program & Field Operations	Senior Development Planner	Research Triangle Institute (Chana)	4 years	4/84
Caye, Virginia	Foundation Representative	Consultant	Penn State/U.of Tenn Rwanda Botswana	4 years	9/83
Cook, Marjorie S.	Confidential Assistant	Research Assistant	Republican Policy Cmte, U.S. Senate	3 years	2/84
Eaton, Patricia F.	Foundation Representative	Consultant and Writer	Peace Corps/UNDP USAID	3 years	4/84
Katus, Thomas M.	Foundation Representative	Director/Board Member	Rural Ethnic Institute	1 year	9/84
Kornegay, Francis A.	Resource Development Officer	Vice President and Research Director	African Communications Liaison Services, Inc.	3 years	2/84
Magid, Paul S.	General Counsel	Assoc General Counsel	Peace Corps	5 years	11/84

Miller, Michael	Budget and Fiscal Officer	Director Finance and Administration	Africare	5 years	7/84
Richardson, Ann B.	Executive Officer	Administrative Officer	Peace Corps	4 years	7/84
Robinson, Leonard H. Jr.	President	Deputy Assistant Secretary, Bureau for African Affairs	Department of State	18 months	9/84
Wilson, Percy C.	Vice President	Director, Washington Bureau	Phelps Stokes Fund	3 years	6/84
Wilson, Wendy	Foundation Representative	Consultant	USAID/Ronco, Inc.	5 years	6/84
Wright, Carol	Personnel Officer	Personnel Officer	Inter-American Foundation	7 years	7/84

APPENDIX C

ADF Professional Staff Positions and Salaries

position	name	current salary	salary earned in most recent position
President	Robinson, Leonard H., Jr.	69,900	61,615
Vice President	Wilson, Percy C.	65,642	65,000
Confidential Assistant	Cook, Marjorie S.	25,366	20,000
General Counsel	Magid, Paul S.	60,593	60,294
Director, Program & Field Ops	Brown, Earl M., Jr.	52,262	48,957
Foundation Representative	Caye, Virginia	44,430	45,500
Foundation Representative	Eaton, Patricia F.	44,430	52,000
Foundation Representative	Katus, Thomas M.	44,430	52,000
Foundation Representative	Wilson, Wendy	37,599	39,000
Resource Development Officer	Kornegay, Francis A.	36,327	30,500
Executive Officer	Richardson, Ann B.	50,495	46,051
Budget & Fiscal Officer	Miller, Michael G.	50,495	44,000
Personnel Officer	Wright, Carol D.	47,221	43,593
Contract/Procurement Officer	Beauter, James H.	36,327	45,500

APPENDIX D

ADF's Proposal Review and Project Management Procedures

African
Development
Foundation

PROPOSAL REVIEW AND PROJECT MANAGEMENT PROCEDURES

1. Grant applications and proposals received at the African Development Foundation (ADF) headquarters will be processed by the Program Office staff person designated by the Director of Programs and Field Operations in accordance with the following procedures:

    a. Clock and log in each grant application or proposal by country;

    b. Mail a letter or postcard to each applicant acknowledging receipt of the application or proposal and indicating action taken (Appendix 1);

    c. Distribute the application or proposal, along with a copy of the acknowledgement letter, to the appropriate Foundation Representative and/or Program Officer;

    d. Direct correspondence which is not country-specific to the Director of Programs and Field Operations or his or her designee.

2. After an application or proposal has been properly registered and acknowledged, the document will be reviewed and assessed by the appropriate Foundation Representative.

3. If the Foundation Representative determines that the project is outside of ADF's mandate and criteria for eligibility, he or she will prepare a letter for the signature of the Director of Programs and Field Operations informing the applicant of ADF's disposition of the proposal or application, including a summary statement explaining why the proposal was rejected. Copies of these letters will be placed in the central file managed by the Secretary to the President as well as in the appropriate Program Office files.

4. If the Foundation Representative determines that there is a need for additional information before he or she can make a recommendation to the Director of Programs and Field Operations that the project is appropriate for Project Review Committee (PRC) consideration, the Foundation Representative will initiate actions to acquire the necessary data.

5. If the Foundation Representative determines that the project meets ADF's mandate and criteria, he or she will take the following steps to prepare it for review by the PRC:

    a. Ensure that all internal Program Office procedures for preliminary review are followed;

    b. Consult on legal, budget, and program policy issues with any member of the ADF staff;

c. Compile a complete project proposal package which includes a project assessment memorandum and all required supporting documentation.

Because comprehensive documentation will greatly facilitate favorable consideration of projects, copies of host country accords (where appropriate), financial reports, most recent audit reports (where appropriate), and any other data regarding suggested conditions precedent should be attached for PRC review. Additional information may include a recommendation of firms which might be contacted by the Budget and Fiscal Officer for audit work.

6. The PRC will hold regularly scheduled meetings each Thursday from 2:30 to 5:00 p.m. The Director of Programs and Field Operations will notify the Secretary to the Chairperson of the PRC of the Program Office's readiness to present proposals for funding approval 48 hours before the regularly scheduled PRC session. The Foundation Representative will distribute copies of the project documents, also 48 hours before the regularly scheduled PRC session, to all members of the PRC (President, Vice President, Director of Programs and Field Operations, Director of Administration and Finance, General Counsel, Budget and Fiscal Officer, Research and Evaluation Officer, and Chairperson of the Board of Director's Program Committee).

If no such notification is made or if complete project documentation is not distributed, the Secretary to the Chairperson of the PRC will cancel the meeting and notify the PRC members of such action.

7. The PRC will use the following procedures in considering all proposals:

a. The Foundation Representative will be allotted 15 minutes to present the salient points of the proposal and his or her analysis of why the requesting organization's project should be funded by ADF. The Foundation Representative may request more time, if necessary, but should be prepared to make a concise, analytical presentation with the understanding that all PRC members have studied the documents prior to the presentation. At the conclusion of this presentation, each member of the PRC will have an opportunity to ask clarifying questions with a maximum of 5 minutes allotted for each questioner. An additional 15 minutes may be allotted by the Chairperson for discussion of special conditions suggested by PRC members and for clarification of information or actions to be required of the applicant as a prerequisite to project approval or funding.

b. Each member of the PRC will then complete the Project Rating Form (Appendix 2). The Secretary to the Chairperson will immediately compile and type the ratings and return them to the Chairperson for final consideration.

c. If the composite rating score is 70% or above, the project will be approved for funding. The Foundation Representative will be responsible for any revisions to the project documents necessary to incorporate special conditions agreed upon in the project review process and for final processing of all approved projects.

d. If the composite rating score is 69% or below, the members of the PRC will be asked to vote on whether the project should be rejected or whether it should be reconsidered for funding if appropriate additional information is gathered or other required action taken.

For those projects which are rejected, the Foundation Representative will be responsible for preparing a letter for the signature of the Director of Programs and Field Operations notifying the applicant that his or her project has not been approved. Copies of such letters will be placed in the central files as well as the Program Office files.

For those projects which are approved for further consideration, the Chairperson of the PRC, in consultation with the President, the Director of Programs and Field Operations, and the Foundation Representative, will decide whether resubmission to the PRC is required or whether a revised proposal can be approved without resubmission.

8. The Chairperson of the PRC will be responsible for the Board of Director's Program Committee review of all PRC-approved projects and will notify the Director of Programs and Field Operations of Board decisions.

9. Following receipt of Board of Directors' concurrence, the Foundation Representative is responsible for follow-up related to a proposal approved for funding. The following documents and steps are required to obtain the signature of the President on a grant agreement:

    a. The Foundation Representative will prepare an ADF grant agreement (Appendix 3) which incorporates all pertinent terms and conditions, disbursement schedules, and reporting instructions. The Foundation Representative will seek the advice of the General Counsel at this stage to ensure that the agreement adequately addresses all legal issues.

    b. The Foundation Representative will obtain the grantee's signature on the agreement before proceeding further. When the grant agreements are sent by mail to the grantee for signature, the Foundation Representative will send a telex to the grantee indicating that the agreement has been mailed and requesting the grantee to inform ADF by telex upon receipt of the agreement.

    c. When the Foundation Representative has a signed grant agreement, he or she will prepare a notification letter to the House and Senate Appropriations Committees (Appendix 4) for the signature of the General Counsel. The Congressional Committees require such notification 15 days before funds are obligated.

    d. The Foundation Representative will then prepare a package for internal clearance and for the President's signature. The Foundation Representative will be responsible for final quality control before the package is distributed. The package will include the following documents:

        - Grant agreement signed by the grantee (2 originals);
        - Grant award letter (Appendix 5);
        - Grant announcement letter to be sent to the United States Ambassador in the country where the grant is to be awarded (Appendix 6);
        - Grant announcement letter to the Ambassador to the United States from the grantee's country (Appendix 7); and
        - Certification that the notification letter was sent to the House and Senate Appropriations Committees and that no objections were raised during the 15 days following Congressional receipt of the notification.

e. The Foundation Representative is responsible for routing the document to and obtaining clearances from the General Counsel and the Director of Administration and Finance.

f. The Director of Administration and Finance is responsible for forwarding the cleared document to the Vice President. The Vice President will obtain the signature of the Chairperson of the Board's Program Committee, sign his or her final approval, and forward the documents to the President for signature and obligation of funds.

10. The Secretary to the President will be responsible for forwarding one original signed grant agreement with copies of all supporting documents and internal clearances to the Budget and Fiscal Officer. He or she will return the second original of the signed agreements and all other documents to the Foundation Representative for further processing.

11. The Foundation Representative is responsible for mailing the original and copies of the agreement and award letters to the grantee and the announcement letters to the appropriate officials.

12. The Foundation Representative is responsible for monitoring all aspects of project implementation.

13. The Foundation Representative and the Budget and Fiscal Officer will use the following procedures in disbursing funds:

a. Upon receipt of the first and subsequent disbursement requests, the Foundation Representative will prepare a memorandum to the Budget and Fiscal Officer in which he or she will certify that all conditions precedent to disbursement of funds have been met, attaching documentation to support the certification.

b. For a first disbursement, the Budget and Fiscal Officer will confirm the grantee's banking arrangements by telexing the grantee's bank requesting an answer back to the effect that the grantee account is open, the beneficiary name is correct, and the bank is prepared to receive and credit a telegraphic transfer.

c. The Budget and Fiscal Officer, for first and subsequent disbursements, will telex the Regional Administration and Management Center (RAMC) of the State Department in Paris (with a copy to the Foundation Representative) using the format described in Appendix 8.

d. Upon receiving a copy of the above telex, the Foundation Representative will immediately notify the grantee to expect the transfer of funds to its bank account and request confirmation of the amount and date of receipt.

e. The Budget and Fiscal Officer will forward to the Foundation Representative a copy of the RAMC implementing telex as confirmation that the transaction has been initiated and to provide the Foundation Representative with the information that would be needed to initiate a trace, if necessary.

f. The Budget and Fiscal Officer is responsible for preparing and sending to RAMC, Paris, the hard copy voucher(s) following transmission of the disbusement request telex.

g. Until the Budget and Fiscal Officer is able to confirm the existence of a properly established grantee bank account, no disbursement will be issued. Should the bank indicate that a wire transfer is unworkable, the Budget and Fiscal Officer is responsible for asking RAMC by telex to issue a check payable to the grantee, in care of the African Development Foundation. When the check arrives in Washington, the Budget and Fiscal Officer is responsible for notifying the Foundation Representative of its receipt and arranging for its hand delivery by a staff member visiting the project or via a commercial delivery service. The Foundation Representative is responsible for notifying the grantee that the check is being delivered, when, and by whom, and for arranging for confirmation by the grantee of the amount and date of receipt.

14. Upon receipt of quarterly fiscal and program progress reports, the Foundation Representative is responsible for conducting a review of expenditures and progress toward program objectives. The Foundation Representative will forward these reports to the Budget and Fiscal Officer with any recommendations for further action.

15. Should the Foundation Representative decide in the process of monitoring project implementation, either through site visits or reviews of quarterly reports, that further disbursements should be delayed, cancelled, or the project terminated or significantly modified, he or she will be responsible for notifying the Director of Programs and Field Operations who will consult with the Vice President and the President before any unofficial or official action is taken.

16. All on-site monitoring of projects will be coordinated with the Director of Programs and Field Operations. As appropriate, projects should be visited within the first quarter of operations.

17. All ADF staff are responsible for preparing trip reports within two weeks of returning from a site visit and for ensuring that copies of all reports are submitted to the Foundation Representative to whom the project is assigned for review and filing.

18. In order to keep ADF staff informed of project progress, the Foundation Representative will arrange periodic briefings. The regularly scheduled PRC meeting times may be used for this purpose and will be open to all ADF staff.

19. The Budget and Fiscal Officer is responsible for providing audit guideline information to the Foundation Representative who can distribute this information in the field to potential audit firms. The Budget and Fiscal Officer is also responsible for contracting with an audit firm for each funded project within three months of the start of project operations and for providing the Foundation Representative with a copy of the contract for the project file.

    It is ADF's policy to avoid using the same firm for both technical assistance in setting up accounting and financial management systems and for annual audit reports. Also, preference will be given to indigenous audit firms.

    The Foundation Representative is responsible for the final decision on and arrangements for technical assistance, including financial technical assistance.

20. During the project implementation and monitoring process, the Foundation Representative is responsible for arranging end-of-project year (or every 12 months) internal reviews. (The project year begins on the date of receipt of the first disbursement of funds.) In consultation with the Director of

Programs and Field Operations, the Foundation Representative will schedule a meeting with the PRC and prepare any documentation necessary to facilitate the review of project progress and decisionmaking on the continuation or modification of a grant agreement.

APPENDIX 1

African
Development
Foundation

November 21, 1984

Mr. Okumanin-Sei Guakro
Chairman
Otho, Acheampong Farms, Ltd.
P.O. Box 2095
Kumasi, Ghana

Dear Mr. Guakro;

The African Development Foundation (ADF) is pleased to acknowledge receipt of your recent request for information regarding project funding.

Since operations began in February, 1984, ADF has received numerous project proposals representing a wide spectrum of community development interests in Africa. ADF is mandated to consider project requests from indigenous African organizations. These projects should encourage the involvement of local citizens in the planning, design, and implementation phases to promote grassroots development and improve the general quality of life of community members.

Although ADF at present is active in a limited number of countries due to staff limitations, no projects have been funded from Ghana to date. The current program represents only the beginning of the Foundation's activities. It is likely that a Foundation Representative will be visiting Ghana in the near future to conduct on initial assessment of potential opportunities for ADF support.

Please find enclosed a copy of the ADF brochure and an application form. The receipt of this application form will enable ADF to initiate the project review process, including the on-site assessment as mentioned above. Your response should be directed to the Foundation Representative for Ghana, Ms. Patricia Eaton.

Thank you for your interest in the African Development Foundation.

Sincerely,

Leonard H. Robinson, Jr.
President
The African Development Foundation

Enclosures:
LHR/WW/jw

1724 Massachusetts Avenue • Northwest • Suite 200 • Washington, D.C. 20036 • (202) 634-9853

APPENDIX 2

(Signat of ADF/PRC Member Rating)

(Date of Rating)

(Foundation Representative's Name)

(Overall Rating out of 100 pts.)

(Project Title)

(Country)

ADF PROJECT RATING FORM

Criteria	Max Rate	PRC Rate	Special Conditions
1. Needs/Impact Assessment Need/justification for the project is clearly documented; there is a level of beneficiary participation. Project impact issues have been clearly addressed.	20		
2. Project Goals and Objectives Project goals and objectives will benefit the poor majority and meet ADF's mandate; goals and objectives are clearly obtainable and measurable.	30		
3. Plan of Action Project strategy for implementation is clear, logical, and realistic. Action plan is consistent with goals and objectives, and is designed so that project will reach intended beneficiaries. Project moves toward self-sustainability; technical needs can be identified.	25		
4. Administrative and Financial Management Organization has capability to implement project. Grantee has management system that will be accountable for use of project funds to achieve planned goals; grantee has fiscal integrity and explicit planning for fiscal management; budget is comprehensive and realistic.	15		
5. Reporting/Monitoring/Evaluation Grantee will be able to meet reporting requirements; ADF will be able to monitor grantee's project performance by identified performance indicators.	10		

APPENDIX 3

African
Development
Foundation

GRANT AGREEMENT
BETWEEN
____
AND THE
AFRICAN DEVELOPMENT FOUNDATION

GRANT NO. ______

This Grant Agreement ("Agreement") is between ____________

____

____

and the African Development Foundation ("the Foundation"), an independent agency of the Government of the United States of America, with offices located at 1724 Massachusetts Avenue, N.W., Washington, D.C. 20036, United States of America.

I. Amount and Use of Grant Funds

The Foundation grants ____________________________

to ____________________________________

to conduct the project described in Paragraph III below ("Project"). ____________________________ agrees to use these grant funds only for Project activities and in accordance with the budget, attached in Appendix A, F-1, F-2.

II. Grant Period

The Foundation will make grant funds available over a ________________________ period beginning ________________________________ and ending ________________________. ______________ agrees to return to the Foundation any grant funds not expended or committed to Project activities during the grant period.

III. Purpose of Grant

This grant is being made by the Foundation in response to ______________________________'s proposal. Attached is a summary of the Project activities (Appendix A, I, II-A, B, C, D, E).

IV. Bank Account

In order to facilitate disbursements, financial reporting, and auditing, ____________________ agrees to establish a separate non-interest bearing bank account in the name of the organization to be used exclusively for all Foundation grant funds ("Project Bank Account").

V. Disbursements

The Foundation will normally make disbursements in ______________________ at the prevailing rate of exchange used by the Foundation on the date of such disbursement.

The Foundation will disburse grant funds, except for audit costs, in ______________________________ installment amounts reflecting ______________'s anticipated expenditures for the period covered by the installment after it receives:

A. For the first disbursement:

1) Signed copy of this Agreement.
2) Notification of the bank name, branch postal address, and account number of its Project Bank Account.

3) ______________'s request for the disbursement installment specifying the amount required by Budget line item.

B. For subsequent disbursements:

1) Notification of the bank name, branch postal address, and account number of its Project Bank Account.
2) ______________'s request for the disbursement installment ("Disbursement Request"), substantially in the form of Appendix B.
3) As due under the terms of this Agreement, regular financial, progress, and audit reports.

C. Special Conditions: ____________________________

____

____

____

____

____

____

____

____

VI. Bank Account and Financial Records Relating to Grants

In connection with Project Bank Account, ______________ agrees to maintain records of receipt and expenditure of grant funds. ______________ agrees to make available to the Foundation, if requested, such records and accounting books relating to the project, including working papers of auditors referred to in Paragraph VIII, and to provide for similar access in other agreements it makes relating to the Project.

VII. Progress and Financial Reports

______________ agrees to furnish timely progress and financial reports every three months, unless otherwise specified, beginning ___________________. Subsequent progress and financial reports are due by:____.

____

____

____

____

____

____

The reports should be mailed to:

Director of Program and Field
Operations
African Development Foundation
1724 Massachusetts Avenue, N.W.
Suite 200
Washington, D.C. 20036
U.S.A.

The Reports must be postmarked and sent registered mail, no later than fourteen (14) days after the close of each three month period. The Final Three Months Report, however, must be submitted no later than thirty (30) days after the close of the project funding period. Later submission of Progress and/or Financial Reports could affect timely disbursement of additional funds to your project.

Failure to submit Reports can result in termination of the Agreement. It is very important, therefore, to submit Reports on schedule.

Progress reports will describe what has been accomplished with grant funds, including a description of progress made toward achieving grant objectives and a description of any problems experienced or anticipated in meeting grant objectives in the form of Appendix C-2. Financial reports will be in the form of Appendix C and will account for grant expenditures according to budget line items (and will also include, as applicable, reports on amount, source, and kind of counterpart contributions).

VIII. Audits

Audits will be conducted by an audit firm selected and paid by the Foundation. Audit firm will contact ________________ within three (3) months of receipt of the first disbursement and present the audit schedule. ______________ agrees to make available to the auditing firm all of its financial records relating to the grant to insure that the audits are completed as scheduled, and to cooperate fully with the firm's requests for information. A copy of this Agreement will be sent to the firm.

IX. Monitoring and Evaluation

The Foundation will monitor activities under this grant, including discussions with ________________ personnel or others with whom _________________ is working and review of financial and other records relating to this grant. So that the Foundation, ________________, and others may learn from grant activities, the Foundation will evaluate this Project, working out procedures to do so in cooperation with _____________.

X. Amendments to Agreement; Termination

This Agreement may be changed by mutual agreement in writing signed by both parties. However, ___________ may, without exceeding the total amount of the Agreement, increase or adjust budget expenditures up to a maximum of fifteen (15) percent within any individual category without prior Foundation authorization. However, ______________ must notify the Foundation when any such adjustment is made. An increase in any budget expenditure will necessarily require decreases in another expenditure within that budget category.

Increases exceeding fifteen (15) percent require prior written authorization from the Foundation. ____________'s request must indicate what budget expenditure will be reduced to offset the requested increase.

__________________ or the Foundation may terminate this grant upon written notice to the other party. Upon termination, _______________ shall take appropriate steps to minimize all charges under this grant and shall cancel commitments wherever possible. Within thirty (30) days after termination, ______________ will return to the Foundation all uncommitted grant funds and furnish the progress and financial reports referred to in Paragraph VII of this Agreement. In addition, a final audit will be performed within 120 days after termination.

I. Miscellaneous Provisions

A. This Agreement will be executed in both English and _________________.

B. ___________________ will inform the Foundation promptly of any changes in its name and legal status.

C. This Agreement will be governed by the law of the District of Columbia, United States of America.

D. Any claim or controversy arising out of or relating to this contract shall be settled by arbitration in accordance with the rules of procedure of an internationally recognized arbitration organization agreed to by the parties.

E. The appendices form a part of this Agreement and should be initialed by ____________________ when signing this Agreement.

F. This Agreement will take effect as of the date of its last signature.

____
Organization Name

By______________________________ ______________________________
Name Date
Title

By______________________________ ______________________________
Name Date
Title

AFRICAN DEVELOPMENT FOUNDATION

By______________________________ ______________________________
Leonard H. Robinson, Jr. Date
President

****
FOR USE BY THE AFRICAN DEVELOPMENT FOUNDATION ONLY

Project Name:____

Obligation Number:___________________________________

Appropriation Number:________________________________

Amount:________________ Funds Available:________________

Date:__________________ Recorded by:____________________

SAMPLE GRANT AGREEMENT APPENDICES

n. m.
M. B
M. S.

APPENDIX A

Project No. 004 LES

LEVI'S NEK CHAPTER OF THE LESOTHO WOMEN IN SELF-HELP

I. Project Description

A. Need for the Project

The Levi's Nek Chapter of the Lesotho Women in Self-Help requests funds for technical assistance, equipment and supplies, and a storage shed to develop its Sewing Brigade into a viable school uniform and garment production enterprise.

Levi's Nek is in the district of Butha Buthe, on the northern edge of Lesotho. It is in the foothills of the mountains, somewhat isolated, but on a good road. Levi's Nek is a small village, with three primary schools in the vicinity, a few shops but no manufacturing. There is little opportunity for paid employment other than self-employment.

This project is requested because of unemployment and underemployment at the village level, but it addresses other important issues as well. Lesotho is essentially a distributive economy, with little manufacturing or production at present. Consumables are largely imported from South Africa in retail form, often by South African-owned firms, and then distributed throughout the country. Lesotho's lack of production capacity stems from several factors:

- its heritage as a former British protectorate,
- its geographical position, land-locked and completely surrounded by South Africa,
- its small population (approximately 1.5 million), which is perceived by many entrepreneurs as too small to warrant industrial infrastructure development,
- its proximity to industrialized South Africa, with its well-developed infrastructure and economies of scale, and
- its lack of natural resources for exploitation; there are no known minerals, oil, or other resources which could provide the economic base for development. Lesotho's one diamond mine was recently closed down.

A further problem is that Lesotho is mountainous; only about 15% of the land is arable.

At present, more than 100,000 Basotho work in South Africa, mostly in the mines. Remittances from miners represent 41% of the Gross National Product. However, employment in the mines is declining, and Lesotho faces both a mounting unemployment problem and a declining income. The average per capita income in 1982 was less than 400 dollars per year. The labor force was estimated to be 623,000 in 1979 and growing by approximately 22,000 annually. However, new jobs increase at a rate of less than 1,000 per year.

Approximately 75% of the population are classified as rural poor by the Government of Lesotho. Cash incomes for rural households are derived from wages earned in the mines (50%), other domestic off-farm activities (21%), and sales of agricultural commodities (20%). Farmers produce about half of their total food requirements. Because of increasing population and the shortage of arable land, it is estimated that by the year 2000, more than a third of rural households will be landless. At present, because of the large scale outmigration of men to the mines, approximately 30% of households are headed by women who are widows, divorcees, separated, or single. Another 40% are managed by women whose husbands are absent.

This background information indicates the extent to which skills and resources are needed by rural women in Lesotho. The proposed project will provide these in the form of skills and management training, working capital, and equipment specifically for the production of school uniforms and jerseys (sweaters). The beneficiaries will be the 30 members of the Levi's Nek Lesotho Women in Self Help (LWSH) sewing brigade and their families.

School garment production has the potential to be a viable enterprise in Lesotho, especially in rural areas. A 1983 market survey by the Basotho Enterprise Development Corporation (BEDCO) provides information on the potential for school uniform/jersey production.

- Total enrollment in primary and secondary schools in 1983 was about 300,000 and growing at a rate of 5% annually.

- Nearly all children (75%) wear matching uniforms and jerseys.

- Currently there is no market leader in the supply of uniforms. Most are produced in South Africa.

- On average, three sweaters are bought every five years in secondary school; girls have two sweaters, boys have one. The peak purchasing times are January-April.

Small groups of women producing 10-15 uniforms per week for local schools can be found in several areas of Lesotho, but there is no information concerning their potential for expanded production. That is, it is not known to what extent these groups, with skills upgrading and seed money for equipment and working capital, can compete with South African imports. There is a virtual explosion of interest in uniform production, and this project could provide a model for other women's groups around the country. Part of this interest is due to the increased recognition that uniforms represent a sizeable market. There is also the factor that many women know how to sew, and they can sew in their homes or meet with others to share skills, as well as purchasing and marketing tasks.

This project will assist women in a rural mountainous community. It represents a potential model for replication as a program of training and technical assistance which, when coupled with modest funding, can help small sewing groups develop into rural production units.

Lesotho Women in Self Help (LWSH) is a national women's group with local chapters. It was organized by the Women's Bureau of the Government of Lesotho in 1979. There are now more than 125 chapters of LWSH around Lesotho, primarily in rural areas. Women's Bureau field organizers have for some time been meeting with local LWSH chapters to identify projects which chapters might undertake to help their members or to promote development in their area. As a result of this organization process, many LWSH groups established sewing projects.

In 1982, the Women's Bureau and the United Nations International Labor Organization (ILO) initiated a national project to upgrade the skills of selected LWSH groups, which then became "Sewing Brigades."

As a result of this project, there is now a core of sewing groups or brigades located around the country who have received basic skills training in school uniforms, traditional skirts, and simple children's clothing production. Levi's Nek is one of those trained groups. It has 30 members who meet three days per week to work in the house of a member. They produce approximately 20 school uniforms plus other garments per week. Among the group, twelve have had training through the ILO project. These twelve are teaching the other members, who now contribute by sewing hems, pressing, and handsewing and hand knitting. The group also has six sewing machines on loan from the Women's Bureau. However, these machines are said to be fragile and often have problems.

Although the Levi's Nek group has had enough training to enable them to produce on a marginal basis, they have requested additional training to upgrade their sewing skills, to learn machine knitting, and to develop their business management skills. They also have requested additional and better sewing machines, knitting machines, and funds for enough cloth and wool to enable them to expand their production as their skills improve.

The project seeks to strengthen the Levi's Nek Sewing Brigade by building on their existing skills and developing new ones to the point that the group can function as a small but independent garment production unit. It expands their effort by providing funds for equipment and the materials which will enable them to produce in larger volume.

The overall goal of the project is to improve the lives of rural women by increasing their income-earning potential.

The purpose of the project is to develop a viable garment production unit, especially school uniform and jersey production, in the rural community of Levi's Nek.

B. Project Description

The project, which will take place over a 1 1/2 year period, is described below.

Training

There are three major training components in this project:

- Advanced technical training in garment production (both sewing and knitting)
- training in management and business aspects of garment production, and
- training for one member in sewing machine repair.

Advanced Technical Training In Garment Production

The Levi's Nek Sewing Brigade produces school uniforms, skirts made with traditional prints (lishoeshoe), and basic children's clothing. At present, the quality of the garments produced is generally good but uneven. The group would like training to upgrade the quality of their production and to expand the product line to include not only other sewn garments but also knitted jerseys. Therefore, the group will hire with project funds a sewing/knitting instructor who will work with the group on an average of one week per month. The training will include instruction on:

- operation of new machines (both knitting and sewing) to be purchased through the project
- techniques to improve the quality of their products
- sewing techniques that will enable the group to diversify its product line: making and adapting patterns, use of different kinds of material, etc.

The training program will begin with an assessment by the instructor of individual skill levels. She will compare these with the skills needed by the group as a whole to function as a production unit and design her training program to fill the gaps. She will establish specific target competency levels for the group, which will be used in the final project evaluation.

In addition to the specific training elements of her consultancy, the sewing instructor will work with the group to purchase the new machines, as well as cloth, wool and other raw materials. Arrangements will be made to purchase raw materials at the BEDCO bulk buying facility. She will also assist in arranging marketing contacts and other aspects of the unit.

A potential candidate for the position with many years teaching experience and some business experience has been identified.

Training in Business Aspects of Production

Business training to be provided within the project will include both skills related specifically to garment production and also to general management procedures. The sewing/knitting instructor will be able to provide the business aspects related specifically to sewing and knitting. This will include such items as garment pricing, stocking, and planning and ordering raw materials.

Recordkeeping systems, both financial and production-related, will be developed with the group by the auditing firm. The firm will visit the group to assess its recordkeeping needs, and the group member who has attended a short course in bookkeeping will spend several days at the office of the auditors, working with them. Funds have been provided in the budget for additional technical assistance in business skills if it appears necessary as the project evolves.

The group has decided to appoint specific individuals to handle selected business aspects of the project. One member has attended a short course in bookkeeping and will be responsible for the recordkeeping. Two members will be designated to work with the sewing instructor on marketing. She will provide particular assistance in identifying specific markets for products other than school uniforms. The group has made some preliminary marketing contacts already. A Principal of one area primary school has agreed in principle to purchase 300 school uniforms from the group in the coming year.

Sewing Machine Repair

At present there is one sewing machine repairman available to assist rural groups. He operates out of the BEDCO industrial estate in Maseru, which is a minimum of 2 1/2 hours away from Levi's Nek. Although several women in Levi's Nek can make basic sewing machine repairs, they have never been trained. Sewing machine repair needs to be closer to Levi's Nek in order to ensure that group productivity is maintained. Therefore one member of the Levi's Nek group will apprentice with the BEDCO sewing machine repairman for up to six (6) months. The Women's Bureau has indicated that agreement in principle has been reached with BEDCO and the repairman for this arrangement. Major repairs would still require professional servicing either by the BEDCO repairman or in South Africa; however, less serious repairs could be managed by the trained group member. Funds have been included in the budget for the apprentice's subsistence allowance while she is in Maseru, a small stipend, and a set of tools to be purchased after her training is completed.

In addition to the training described above, three members of the Levi's Nek Sewing Group will visit a rural school uniform production center in Swaziland for 4 days. This is important because most of the group have not seen enterpreneurial or light industrial activity owned and operated by groups of women. A visit to Swaziland will enable them to see the potential of their activities and to learn from the experience of their Swazi counterparts. The trip will be arranged by the national office of Lesotho Women in Self-Help and the Women's Bureau.

Funding for Equipment, A Storeroom, and Materials

Machinery presently used by the group is insufficient and inadequate. The project will fund the purchase of 10 sewing machines and two knitting machines, making a total of 18 machines, including the six machines on loan from the Women's Bureau, for the 30 members. Those not using machines will be cutting, hemming, and other non-machine related tasks.

Because of a lack of space for all members to work together, the group has initiated construction of a small sewing center. They are building this center themselves, with mud and bricks, in their spare time. They could complete the building in one month but will need funds for the roof, windows, and doors. These have been included in the project budget, along with funds for 3.6 square meter storeroom for equipment, wool, cloth, & other supplies. The storeroom will be constructed by a professional contractor.

Funds are provided to purchase wool and cloth. The items produced from these raw materials will be sold and the funds used to purchase materials for subsequent production.

By the end of the project period, the group would like to be able to earn a wage from production of M50 per month. The production required to generate this income is calculated below.

Total salary requirement: M 50/month x 30 members = M1500

Net profit per school uniform excluding labor is approximately 25%

Monthly gross revenues required = approximately M 6000
M 6000 /M15 - (average price per school uniform or school jersey) = 400 items to be produced per month or 100 items per week.

With 30 members working, this is slightly more than 3 items per member per week.

The group feels that this is an achievable training and production target.

The project attempts to solve the unemployment and underemployment problems of one group of rural Basotho women by providing them with skills for production of items having a local market and which have the potential to replace imports. At the end of the project, the group will be able to function as an independent small scale production unit.

The project will benefit the thirty members of the Levi's Nek Sewing Brigade, their families and the community in which they live. It will enhance the members' ability to be self-supporting. The increased income earned by group members as a result of participation in the project will assist the families they support. And because the group intends to develop other projects, it will help the community as well. (For instance, the group is investigating the development of a brickmaking project for out-of-school youth in their village.) Finally, the project will be a modest but important contribution to increasing Lesotho's self-reliance.

The project will be located in and cover the Levi's Nek area of the northern Lesotho district of Butha Buthe.

II. Project Implementation Strategy

A. Goal

To improve the lives of rural women by increasing their income-generating potential

B. Purpose

B. Purpose	Indicators (how will we know we have succeeded)
To develop a viable school uniform and garment production business	By the end of the project, group members are making 75% of their target income

C. Outputs (major results expected)

C. Outputs (major results expected)	Indicators (how will we know we have succeeded)
1. Trained producers and enterprise managers	1. Group has skills to make variety of products; financial and production records are adequately maintained
2. Production System	2. Production orders are executed on time, equipment is working properly; quality of products is acceptable to buyers
3. Marketing System	3. New and repeat orders are received; group works year round
4. Transportation capability	4. Products are delivered on schedule; raw materials are in stock when needed

D. Inputs	Tasks	Personnel	Project Months
1-a	Hire evaluation firm/consultant Decide terms of reference	Levi's Nek Mgt. Committee ADP, District Leader LWSH	Pre-Project
1-b	Hire sewing consultant	Levi's Nek Mgt. Committee District Leader LWSH	Pre-Project
1-c	Hire auditing firm	Levi's Nek Mgt. Committee, ADP	Pre-Project
1-d	Arrange machine repair apprenticeship with BEDCO	Chair, Levi's Nek, Women's Bureau	Pre-Project Pre-Project
1-e	Arrange project monitoring system	Mrs. Kgopo; Levi's Nek Mgt. Committee, LWSH - National, Evaluation Consultant, ADP	Pre-Project Pre-Project
1-f	Assessment of skills; plan sewing training	Sewing consultant, Levi's Mgt. Committee	1-2
1-g	Collection of baseline data for evaluation	Evaluator, Levi's Nek Mgt. Committee	1-3
1-h	Training in production and management skills	Sewing consultant, auditing firm	2-9
1-i	Machine repair apprentice to BEDCO	Group member	2-7
1-j	Organize Swaziland tour	LWSH/National LWSH	2
1-k	Undertake Swaziland tour	Three members, LWSH Levi's Nek	3

1-l	Mid-project evaluation	Evaluator, sewing consultant, Levi's Nek Group	9
1-m	Revisions to training program	Sewing consultant	10
1-n	End of project evaluation	Evaluator, Levi's Nek group	18
2-a	Obtain bids on storeroom construction and hire contractor	Levi's Nek Mgt. Committee	Pre-Project
2-b	Purchase materials for finishing sewing center building	Levi's Nek Mgt. Committee	1-2
2-c	Complete construction of sewing center building	Levi's Nek group	1-2
2-d	Contractor completes storeroom	Contractor	2
2-e	Develop record-keeping system	Group with auditor and sewing consultant	1-3
2-f	Order equipment and cloth, wool	Mgt. Committee with sewing consultant	2-4
2-g	Install new equipment	Group with sewing consultant	2
3-a	Contact local institutions for orders for school jerseys, uniforms	Group members responsible for marketing	1-2

3-b	Establish system of regular contact with institutions, for new orders and feedback on orders filled	Group members responsible for marketing	2-3
4-a	Contact local delivery person or truck owner for regular service in collection of raw materials and delivery of orders	Chair, Levi's Nek	1

F-1 Budget Schedule in U.S. Dollars

BUDGET LINE ITEM	ADF	TOTAL
Project Personnel		
Sewing Consultant	$ 878	SAME
Machine Repair Apprentice Stipend	234	
Travel and Per Diem		
Swaziland visit - 3 people	975	
Local transportation x per diem	2,467	
Other Direct Costs		
Equipment	3,737	
Wool, Cloth	2,373	
Other (Shelving, Small equipment)	650	
Technical Assistance Contingency	1,300	
Audit Fees	943	
Evaluation Expense	650	
SUBTOTAL	14,207	
Capital Expenses		
Storeroom Construction	4,940	
Materials to complete sewing building	650	
SUBTOTAL EXPENSES	19,797	
Contingency @ 10%	1,980	
TOTAL	$21,777	

Budget F-2

EXPENSE BY COMPONENT	MALUTI	$*
Training Expense		
Production training: Sewing Consultant Fee M150/week, one week per month, over 9 months	1,350	878
Transportation	540	351
Subsistence Allowance	1,755	1,141
Misc. program expenses	500	325
Subtotal Sewing Consultant	4,145	2,695
Machine Repair Apprenticeship		
Stipend for apprentice @ M3/day	360	234
Transport home monthly	360	234
Subsistence allowance @ M3/day	540	351
Tool allowance upon graduation	250	162
Subtotal Repair Apprenticeship	1,510	981
Business skills training contingency	2,000	1,300
Swaziland tour for 3 people for 4 days	1,500	975
Equipment		
Sewing Machines		
4 zigzag @ $650	2,600	1,690
6 straight sewing machines @ $150	900	585
Knitting Machines - 2 Passap @ $1,000	2,000	1,300
Subtotal Equipment	5,500	3,575
Other Costs		
Raw Materials: Cloth	3,150	2,048
Wool	500	325
Other (Shelving, scissors, etc.)	500	325
Transport Costs: M/100 mo. for 6 mos.	600	390
Audit fees	1,450	943
Evaluation	1,000	650
Subtotal Other Program Costs	7,200	4,681

*Calculated at M 1 = $.65

F-2 Budget continued

Capital expenditures	Maluti	$
Storeroom	7,600	4,940
Roofing, windows, etc. for sewing building	1,000	650
Subtotal all costs	30,455	19,797
Contingency @ 10%	3,046	1,980
Total Project Request	33,501	21,777

Budget F-3a

Budget Supporting Data:*

Costs of Items Required to Finish Sewing Center Building

	Local Currency	Dollars
Corrugated Iron	M 500	
Door	100	
Door Frame	45	
Windows	190	
Other	165	
Total	M 1,000	$ 650

Cost of Storeroom Construction

Bricks	500	
Cement	850	
Aggregate, coarse and fine	1,100	
Window Frames	150	
Door Frame	45	
Iron Mongery	25	
Brickforce	60	
Timber	600	
Corrugated iron	500	
Flat Iron	200	
Gutters	190	
Paints	500	
Door	100	
Glazing	500	
Labor	2,280	
Total	M 7,600	$4,940

* Calculated @ M 1 = $.65

udget F-4

Expense by Component by Calendar Quarter	Project Quarters 1	2	3	4	5	6
Training Expense						
1 Sewing Consultant		$2,695				
Machine repair apprenticeship		$981				
Swaziland Tour	$975					
Contingency for technical assistance					$1,300	
Equipment						
Sewing and Knitting Machines	$1,000	$575				
Other Costs						
Raw Materials	$2,000	$373				
Other	$325					
Transport	$390					
Evaluation		$650				
Audit		$943				
Construction	$5590					
Contingency			$1980			
TOTAL			$21,777			

III. Administration

A. Organizational Capability

The Levi's Nek Lesotho Women in Self Help is a chapter of the national Lesotho Women in Self Help, a registered voluntary organization established by the GOL Women's Bureau. On a national basis, LWSH has chapters throughout Lesotho, which are organized into districts corresponding to GOL administrative districts. Each district has a committee with a District Leader who sits on the National Committee of Lesotho Women in Self Help. The District Leader functions as the primary method of communication between the local and national offices. She visits the local groups at least monthly and facilitates group contacts with technical assistance resources, service organizations, etc.

Because LWSH was organized by the Women's Bureau, and because the Women's Bureau is located in the Prime Minister's office, there is some political identification with LWSH. However, at the local level, chapter projects are organized as private sector and nonpolitical efforts.

The Levi's Nek Chapter of LWSH has been functioning since 1979. As noted earlier, 12 members of the group participated in training through the ILO project which upgraded the sewing group into a Sewing Brigade. Meeting in a private home, group members work about three (3) days per week. They would like to work full-time but cannot due to lack of space.

Production is both an individual and group activity. The group works together; it also buys raw materials and markets some of its products collectively. However, some members of the group have sewing machines which they bring to the workplace for their own use. All members contribute to a group savings account for joint expenses and future projects.

The project will be managed by the members of the Sewing Brigade through its management committee, which includes a Chairwomen, Vice Chairwomen, and Treasurer. The management committee will work with the outside consultants to the project (the sewing consultant, the auditing firm, the evaluator, the sewing machine repairman at BEDCO, and the storeroom construction contractor) on day-to-day aspects of the project.

The group has not managed other projects of this magnitude; however, they have demonstrated their ability to implement this project in a variety of ways. They have developed a small but functioning sewing unit which has been operating for several years. They have established a system of joint buying and selling. And they have initiated construction of a sewing center. All of these activities require decision-making and management processes as well as organizational capabilities.

The decision-making process of the group is essentially one involving discussion and concensus management. Decisions are made by the group and carried out by the management committee.

Although clearly this project represents an expansion of their existing effort, managing the funds is unlikely to be a problem for the group. One member has attended a short course in bookkeeping. She will be assisted in establishing recordkeeping procedures by the auditing firm at the outset of the project. And additional training will be available if a problem emerges. In addition, funds will be phased in for purchase of equipment and supplies, which represents the bulk of the grant. A separate checking account will be opened for the project and three signatures will be required for each check.

All of the equipment and raw materials to be purchased with project funds will be available within Lesotho or the southern African customs union.

Because this project will be a larger effort for the group, several types of assistance have been built in. First, the sewing consultant will be available to help with the start-up activities, including ordering equipment and supplies. Although her time is budgeted at one week per month, she will initially spend more time with the group to help them through the heavier activity period. A second mechanism of support will be through the District Leader of Lesotho Women in Self Help of Butha Buthe, Mrs. Kgopo, who was involved in the initial contact with the group and participated in the project development effort. In her visits to the Levi's Nek group, she will be able to identify problems and possible resources to resolve those problems.

The benefits will reach the reach the beneficiaries directly. They will manage the project and directly receive the training and profits which will result from the project.

The necessary infrastructure is in place, although there are areas where problems might arise in the project. The Levi's Nek group has sewing skills; they have some marketing skills as indicated by their preliminary contacts with school principals. The group is strong, enthusiastic and resourceful. And they have access to support services if they are needed.

B. Evaluation

There will be a mid-project and end-of-project evaluation; the evaluation will be conducted by an independent firm or consultant, who will be selected prior to disbursement of project funds. By the end of the first month of the project (and preferably in the preproject period), the Management Committee of Levi's Nek LWSH, the District Leader, a representative of the LWSH national committee, and the ADF representative will meet with the selected evaluator to decide terms of reference and procedures for data collection and the evaluation.

Baseline data to be collected for the summative evaluation will include hard information on the group's current production, sales, income and expenses, individual sewing skills, and other information which will help to indicate the progress made by the group during the life of the project. Limited data for a formative evaluation will also be collected on the process and problems experienced by the group.

In the ninth month of the project, there will be a mid-project evaluation to assess the group's progress. If this mid-project evaluation indicates significant problems, the project will be reassessed. Arrangements for additional technical assistance could be made at this time.

As indicated earlier, this group is one of several sewing brigades in Lesotho, most of whom have similar skill levels and face similar problems. The Levi's Nek project will be helpful in assessing the potential of other groups to make the transition from a sewing group to a viable production enterprise.

Project results, both formative and summative, will be disseminated to other groups through the various women's organizations with linkages to the Women's Bureau and, of course, through the national network of Lesotho Women in Self Help. Other sewing brigades around the country have requested similar assistance. It is anticipated that success with the Levi's Nek group will lead to project replication with other sewing brigades.

C. Inputs

There are several other institutions with informal involvement in this project, especially the ILO and the national Lesotho Women in Self-Help. As a sewing brigade, the Levi's Nek group will continue to receive ILO project training, which will in the coming year consist largely of workshops in management skills for group representatives. The national LWSH (whose Secretary General is the Commissioner of the Women's Bureau) will coordinate training in sewing machine repair with BEDCO. They will also participate both by assisting in project monitoring and by providing linkages and communications with other resources as necessary.

Each of these organizations will provide valuable assistance; and although withdrawal of any one of them would negatively affect the project, it would not cause the project to collapse. Further, the nature of the institutional linkages and relationships is such that a withdrawal is unlikely to occur.

COOPERATIVE PROJECT BUDGET FORM

1.Sources of local contributions (in country).

(Indicate with an asterisk (*) which contributions are firm commitments

Source	Amount

2.Sources for Other (foreign donor)

(Indicate with an asterisk (*) which contributions are firm commitments

Source	Amount

3.In-Kind Contributions

The Levi's Nek LWSH will contribute the labor required to complete their sewing building. They will prepare the site for the storage room and assist the contractor as possible The District Leader LWSH will contribute her time and energy in project monitoring. The Secretary General of the LWSH will also contribute her time or that of a delegate in project monitoring.

4.Amount requested from ADF $21,777 over a one and a half year period.

M. m.

1. e

APPENDIX B

Project No. M.S ______

DISBURSEMENT REQUEST

(In Equivalent U.S. Dollars)

For: African Development Foundation Grant No. ______
From: ______
(name of grantee)

Date of request: ______
Reporting Period: ______

a. Grant funds received from ADF:

Received, end of previous report period	$ ______
Plus: Received this period	______
Total received end of this period	______
Cumulative ADF grant expenditures, end of this report period	______
c. ADF grant funds on hand (a minus b)	______
e. Estimated cash required for next period	______
f. ADF cash payment requested . . . . (d less c, if both balances are positive) (d plus c, if c balance is negative)	______

NOTE: Explain any excess over budgeted amount.

______
Signator

______
(Signator Title)

______
Bank name

______
nch Postal Address

______

______
Account Number

Telex No. ______

M. M.
M. C.
APPENDIX C M. S.
Project No. ______

QUARTERLY FINANCIAL and PROGRAM ACTIVITY REPORT

To: The African Development Foundation
From: ______________________________
(Name of Grantee)

For Period Beginning ______________ and Ending ______________ ______

FISCAL DATA

Authorized life of project funding: $________ over a ________ year/month period.
Date of Initial Obligation: month ________ day ________ year
For which quarter does this Report cover?: ______________________
Total expenditures during this quarter: $ ______________________ quarter.
Total expenditures to date: $______________________

EXPENDITURES

Budget Line Item	Budget Amount (US$)	Cumulative Expenditures	Unexpended Budget
TOTALS:			

______________________ ______________________ ______________________
(Grantee's Signature) (Signator's Title) (Date Prepared)

M M.
M. E
M. S

Quarterly Financial and
Program Activity Report
(Continued)

APPENDIX C-2

Project No. ____________

PROGRAM ACTIVITY PROGRESS REPORT

Requested Information:

1. State the significant activities which have taken place toward reaching the project results expected as outlined in Appendix A-II-C of the Grant Agreement.

2. To what extent were your objectives met during this period?

3. Please indicate problems identified, and corrective actions taken.

4. What problems do you anticipate for the future which might impact on the results of your project?

5. Please indicate corrective actions planned in relationship to No. 4 above.

6. State specific problems needing ADF attention.

NOTE: This report is intended to provide the Foundation with summary information and normally should be approximately four (4) pages in length. The Foundation reserves the right to request additional detailed information when such is deemed necessary.

(Grantee's Signature)	(Signator Title)	(Date Report Prepared

VI. J. 1.
M. E.

Quarterly Financial and
Program Activity Report
(Continued)

APPENDIX C-3
Project No. C.N.S.

7. List project inputs scheduled for this reporting period and indicate if key milestones have been met as planned:

Tasks	YES	or	NO
1-a			
1-b			
1-c			
1-d			
2-a			
2-b			
2-c			
2-d			
3-a			
3-b			
3-c			
3-d			

8. For those tasks behind schedule, please indicate why.

9. Was the project self-evaluated during this reporting period? ____ YES ____ NO
If yes, please list those persons who participated in the internal evaluation and how the evaluation was conducted.

Levi's Nek Lesotho Women in Self Help
Appendix D

Special Conditions

Disbursement of funds, or the issuance of any commitment documents pursuant to which disbursement will be made will be subject to the prior fulfillment of all conditions set forth below.

The Levi's ~~Nek~~ Lesotho Women in Self Help (LWSH) will establish a separate bank account for all ADF project funds.Three signatures will be required on all checks.

An accounting system will be established by the grantee. If it is not consistent with normally accepted accounting standards, the auditor appointed by ADF will provide the technical assistance necessary to enable the grantee to meet those standards.

The Levi's Nek LWSH must obtain a signed agreement with a building contractor for construction of the storeroom.

The Levi's Nek LWSH must obtain a signed agreement with the Sewing Consultant.

Arrangements for the sewing machine repair apprenticeship for a member of the Levi's Nek Sewing Brigade will be made.

No funds will be disbursed for evaluation or audit expenses without prior written agreement between Levi's Nek LWSH and ADF.

APPENDIX 4

African
Development
Foundation

SAMPLE LETTER TO BE SENT TO EACH OF THE FOLLOWING FOUR ADDRESSEES:

1. Congressman ________________
Chairman, Subcommittee on Foreign Operations
of the Appropriations Committee
House Office Building, Room ___
Washington, D.C. 20515

2. Congressman ________________
Chairman, Appropriations Committee
House Office Building, Room ___
Washington, D.C. 20515

3. Senator Robert Kasten
Chairman, Subcommittee on Foreign Operations
of the Appropriations Committee
5125S, United States Capitol
Washington, D.C. 20510

4. Senator Mark Hatfield
Chairman, Appropriations Committee
Dirksen Senate Office Building, Room 118
Washington, D.C. 20510

Dear (Senator/Congressman) ________________:

We are pleased to submit the attached project descriptions to the ________________(Committee/Subcommittee) in compliance with the notice requirements of Section 523 of PL 97-121, The Foreign Assistance and Related Programs Appropriation Act.

The Foundation intends to approve funding for the following projects:

LIST PROJECT NAME, COUNTRY, AND AMOUNT OF GRANT

These project descriptions are forwarded to the (Committee/Subcommittee) at this time to ensure compliance with the requirements of Section 523.

Sincerely,

Paul Majid
General Counsel

Enclosure:
Project Descriptions

APPENDIX 5

African
Development
Foundation

SAMPLE

September 28, 1984

Mr. Brown Machobane
Chairman
Tswelelopele Production Cooperative
Mosomane
Kgatleng District
BOTSWANA

Re: Tswelelopele Production Cooperative
Grant No. 0011-BOT

Dear Mr. Machobane:

It is a pleasure to inform you that the African Development Foundation (ADF) has accepted your project proposal as described in Grant Agreement No. 0011-BOT and its attachments and has approved a grant in the amount of $3,400 to fund the project. A signed copy of the Agreement is enclosed.

Disbursement of funds under this Agreement will be made to the Cooperative upon receipt by the Foundation of a request for disbursement from the Cooperative using the format attached as Appendix B. The form provided includes a request for information on the bank where you will establish a separate, non-interest bearing account for ADF project funds. As noted in the Agreement, this account should require a minimum of two signatures for the withdrawal of funds.

At the time you submit your disbursement request form to the Foundation, please attach a brief description of the record keeping system you establish to handle the funds for the project. This system and the quarterly Financial and Program Activity Reports (Appendix C) will be important in ensuring a proper audit of the project by the auditor selected by the Foundation.

The African Development Foundation extends its best wishes to the Tswelelopele Production Cooperative for the successful implementation and management of your project.

A translation of this letter in Setswana follows.

Sincerely yours,

Leonard H. Robinson, Jr.
President
African Development Foundation

APPENDIX 6

African
Development
Foundation

SAMPLE

October 15, 1984

The Honorable Nicolas Platt
U.S. Ambassador to Zambia
American Embassy
Musaka, Zambia

Dear ~~Ambassador~~ Nick Platt:

On behalf of the African Development Foundation's (ADF) Board of Directors, I am pleased to inform you that a grant of $81,198 has been awarded the Zambia Council for Social Development to execute the Self-Help Assistance Fund for income-generating. The grant is for a two-year period commencing November 15, 1984 through November 14, 1986.

Ms. Virginia Caye, ADF Foundation Representative for Zambia, has been delegated authority by me to monitor and support this project on behalf of the Foundation. All inquiries should be directed to Ms. Caye.

We are pleased to assist Zambia in its grassroots development objectives.

Sincerely yours,

Leonard H. Robinson, Jr.
President

LHR:tt

APPENDIX 7

African
Development
Foundation

SAMPLE

October 15, 1984

His Excellency
Putteho M. Ngonda
Ambassador
Embassy of the Republic of Zambia
2429 Massachusetts Avenue, N.W.
Washington, D.C. 20008

Dear Ambassador Ngonda:

On behalf of the African Development Foundation's (ADF) Board of Directors, I am pleased to inform you that a grant of $81,198 has been awarded the Zambia Council for Social Development to execute the Self-Help Assistance Fund for income-generating. The grant is for a two-year period commencing November 15, 1984 through November 14, 1986.

Ms. Virginia Caye, ADF Foundation Representative for Zambia, has been delegated authority by me to monitor and support this project on behalf of the Foundation. All inquiries should be directed to Ms. Caye.

We are pleased to assist Zambia in its grassroots development objectives.

Sincerely yours,

Leonard H. Robinson, Jr.
President

LHR:tt

APPENDIX 8

African
Development
Foundation

TELEX FORMAT FOR DISBURSEMENT OF PROJECT FUNDS:

650074
USOFFICE RFC PARIS RUFJFC
Attn: Lois Daris Asst Disbursing Officer

ADF telex RAMC__

ADF mailing voucher no _____ dated __/__/__ for dollars 00000.

______________________________ payable in ____________________ to:
(amount in words) (local currency)

Grantee name on bank account
Acct No ____________________
Bank of ____________________
Telex no ____________________
Attn M.____________________
Proj ______ disb no ______

Fiscal data: 11_0700 bureau code 01 oblg _____ certifying officer: (Michael Miller or Ann Richardson). Pls disburse funds by wire based on this telex. All bank charges for acct of ADF.

Regards (certifying officer)

APPENDIX E

ADF's Country Selection and Project Criteria

Project Selection Criteria

Introduction

The African Development Foundation interprets its congressional mandate to embrace the responsibility of assisting local development initiatives in Africa through grants, loans and loan guarantees to indigenous public and private organizations and/or individuals. These groups and/or individuals should reflect the lower socioeconomic strata in Africa's rural and urban communities or be clearly seen to be working in their interest. In interpreting its congressional mandate, ADF identified the following broad program areas for potential project funding:

- Agriculture
- Appropriate technology
- Communications
- Education and training
- Energy
- Fish and animal culture
- Forestry
- Health
- Industry/trades/crafts
- Management
- Development research
- Natural resources
- Planning
- Social services
- Women in development
- Private sector intiatives

The above categories were selected after lengthy discussion among ADF's staff about problems facing people in Africa and after in-depth review of World Bank, USAID, and United Nations Development Program (UNDP) data on Africa's development needs. Several facts emerged during this process: (1) The needs of Africans are basic -- reliable health care, adequate nutrition, decent shelter, and reliable transportation, all "luxury" items in most of rural Africa; (2) Most African governments are preoccupied with learning the art of sound public resource administration and plotting strategy for long term survival to focus adequately on the baisic needs of over 65% of the population; and (3) Those governments which mastered the art of sound public administration management are plagued with numerous natural phenomena that make survival their number one mandate -- persistent drought, undocumented tropical diseases, and poor soil are but a few such problems. These broad program areas were further broken down into several sub-categories as a guide to the wide range of projects that the Foundation may fund within the framework of its mandate.

Priority Areas

Using these broad program sectors and sub-categories as a guide to project selection, the Foundation seeks to actively identify opportunities to assist indigenous African organizations in efforts to improve the quality of life for the rural and urban poor. ADF will seek to address the improvement of basic human needs by supporting income-generating projects which will be realized through agriculture, the establishment of credit unions and cooperatives, village-level food production, transportation, housing construction and the distribution of goods. ADF will also support projects directed toward improving basic health care delivery and education, especially primary education and adult literacy. The overall strategy of the Foundation entails an integrated approach to development which links the economic necessity for income-generation and job-creation to the fulfillment of basic human needs, in order to effectively develop and maximize Africa's human resource potential.

Criteria for Project Identification and Selection

The ADF has established the following basic organizational and project criteria. Organizations receiving ADF grants are expected to exhibit the following characteristics:

- Public or private status as an organization active in local community development or, if a national intermediary, must channel its resources to grass roots entities who are so active;
- The participation of Africans in the policy-making and decision-making process of the organization;
- A focus and commitment consistent with ADF's mandate, demonstrated through the organization's past activites;
- A track record relevant to the organization's proposed use of ADF support, or must demonstrate a capability to obtain the services of and manage individuals who have had appropriate experience;
- Demonstrated management capability to carry out a specific plan of activities;
- A system for maintaining fiscal accountability.

Any project considered for funding should promote one or more of the following:

- Self-sufficiency through community-based development efforts;
- The development of self-evaluation techniques designed by project participants; and/or;
- Development research that will facilitate the transfer of development resources, know-how, and technology within Africa.

More specifically, any program, project, or activity funded by ADF must:

- Be designed to benefit the local community;
- Include local participation in design, implementation and management;
- Be responsive to the needs of the socio-economically disadvantaged;
- Be realistic and feasible in terms of its approach to development management;
- Have potential linkages to other community, regional or national organizations/projects, engaged in similar activities;
- Have achievable objectives and adequate managerial and technical staff resources;
- Able to maximize its own resources with those provided through ADF assistance;
- Potential to contribute to the sustained development of the community;
- Be designed to include local contributions of labor, materials, facilities, funds, etc.;
- Incorporate adequate financial management and accountability, either through existing capability or to be obtained as part of requested ADF assistance.

Country Selection Criteria

Introduction

The analysis that follows is an explanation of the choice of countries selected by ADF for project field assessments for its first cycle of funding. During this initial phase of operations, the Foundation sought to choose countries which would reflect a wide range of African economic circumstances in different subregions of the continent. By seeking such diversity in economic settings in which to fund its first projects, the Foundation will refine its criteria for long-term country selection, leading to the targeting of countries for priority attention.

For this initial funding cycle, the Foundation selected the following countries in which to identify and examine projects for potential funding: Benin, Botswana, Guinea, Kenya, Lesotho, Liberia, Mali, Niger, Sierra Leone, Tanzania, Zambia and Zimbabwe. These countries were selected on the basis of the following socio-ecnomic indicators:

- Countries that fell into low and middle-income categories on the basis of per capita GNP income;
- Annual Growth rates (on the basis of GNP per capita income);
- Gross Domestic Product (GDP);
- Geographical location (in order to arrive at a representative subregional distribution of countries;
- Human and physical infrastructure in urban and rural areas;

- Population size and population growth rates;
- Literacy rate;
- Infant mortality and life expectancy from birth;
- Self-help philosophy;
- Adverse economic circumstances;
- Donor/PVO profile.

WEST AFRICA

TABLE I: Selected Social & Economic Indicators by Country

	Benin	Guinea	Liberia	Mali	Niger	Sierra Leone
GNP per capita income (1981)	$320	$300	$520	$190	$330	$320
Percentage GDP (1979)	3.3	3.6	1.8	5.1	3.7	1.6
Percentage average annual growth rate (1979)-GNP	0.6	0.3	1.6	1.1	-1.3	0.4
Population (year)	3,338,240 (1979)	5,430,000 (1983 est.)	2,091,000 1983 est.)	7,393,000 (1983 est.)	5,098,427 (1977)	3,705,000 (1983 est.)
Percentage annual population growth	3.0-3.3	2.9	3.3	2.6	2.8	2.6
Child death rate age 1-4 per thousand (1979)	25	28	16	31	31	25
Life expectancy from birth	47 yrs.	44 yrs.	54 yrs.	43 yrs.	43 yrs.	47 yrs.
Percentage adult literacy (1976)	7	20	30	10	8	--

All of the West African countries selected by ADF for project funding for FY 84 are low-income countries by World Bank standards (under $360 according to the 1983 World Bank Atlas) except for Liberia (see Table I). Their growth rates are very low to negative, particularly in terms of average annual growth in agricultural production: Benin (-0.6%), Guinea (-2.7%), Liberia (-0.6%), Mali (-1.2%), Niger (-2.9%), Sierra Leone (0.8%). Although most of these countries are small in terms of population, their population growth rates are relatively high compared to their low to negative rates of growth and low levels of adult literacy. All of these countries are, overall, considerably underdeveloped in terms of human and physical infrastructure while Mali and Niger experience a special set of challenges associated with their being semi-arid and land-locked, and often beset by severe drought.

Despite these adverse economic circumstances, several of these countries have undergone or are undergoing internal political changes that show signs of promise in terms of potential economic development. The most recent changes came in Guinea in the April 1984 rise to power of a military regime promising economic liberalization and human rights reforms. Liberia, likewise, is a country in transition following the military coup of April 1980, and its current move back towards civilian rule. In both cases, these developments will have to be closely monitored in order to assess the actual short and long-term stability of these changes. Mali is another country among this grouping which has "adopted reform packages with one or more of the 'usual' elements, such as exchange rate adjustments, budget cutbacks, reduction in subsidies, improvement of parastatal performance, higher agricultural prices, and more economically rational energy pricing" (Elliot Berg, "Accelerated Development Revisited," CSIS Africa Notes, August 5, 1984, p.3).

EAST AFRICA

TABLE II: Selected Social & Economic Indicators by Country

	Kenya	Tanzania
GNP per capita income (1981)	$420	$280
Percentage GDP (1979)	6.5	4.9
Percentage average annual growth rate (1979)	2.7	2.3
Population (year)	15,327,061 (1979)	17,527,564 (1978)
Percentage annual population growth	4.0-4.2	3.4
Child death rate age 1-4 per thousand (1979)	15	18
Life expectancy from birth	55 yrs.	52 yrs.
Adult literacy (1976)	45	66

Kenya, a middle-income country, and Tanzania -- one of the 'poorest of the poor' low-income countries represent contrasting economic circumstances. Economic activity in Tanzania is at a near standstill, while Kenya, one of the faster growing economies in Africa has been hit by "relatively hard times" (Berg, p.3). Kenya has generally been among the few Sub-Saharan countries relatively well-endowed in physical infrastructure and human economic activity. However, according to the U.S. Census Bureau's World Population 1983, it has "the highest fertility level of any country in the world," estimated at 8.1 and a "crude birth rate of 54 per 1,000 population in 1977" (p.45). Tanzania, on the other hand, has been in the throws of a protracted economic and policy crisis over the performance of 'Ujamaa.' Both countries, however, have incorporated a self-help philosophical orientation into their respective development strategies. Tanzania's 'Ujamaa,' with its focus on collective self-reliance is matched by Kenya's 'Harambee' which seems less government-directed while generating a plethora of local self-help schemes based on local initiatives, particularly in the establishment of schools in local communities throughout the country. However, despite Tanzania's lower economic performance compared to Kenya, it shows an adult literacy rate of 66 percent compared to Kenya's 45 percent.

Both countries are among the more stable in Africa in political terms, although they have not been without their problems. The abortive military coup in Kenya in August 1982 was accompanied by declining economic circumstances while Tanzania's political climate has shown signs of tenseness since its military involvement in neighboring Uganda and in relations between the mainland and Zanzibar where secessionist strivings have expressed themselves.

SOUTHERN AFRICA

TABLE III: Selected Social & Economic Indicators by Country

	Botswana	Lesotho	Zambia	Zimbabwe
GNP per capita income (1981)	$1,010	$540	$600	$870
Percentage GDP (1979)	13.5	7.0	1.5	1.6
Percentage average annual growth rate (1979)-GNP	9.1	6.0	0.8	0.8
Population (year)	936,600 (1981)	1,438,000 (1983 est.)	6,346,000 (1983 est.)	8,376,000 (1983 est.)
Percentage annual population growth	3.2-3.6	2.3	3.1-3.4	3.3
Child death rate age 1-4 per thousand (1979)	23	20	22	15
Life expectancy from birth	49 yrs.	51 yrs.	49 yrs.	55 yrs.
Adult literacy (1976)	39	52	39	--

These countries share several similarities as well as marked differences in economic circumstances. All fall within the World Bank's category of "middle-income" countries. However, the one with the highest GNP per capita income, semi-arid and land-locked Botswana ($1,010) exhibits many of the characteristics of the "least developed countries" with its small population and underdeveloped infrastructure. Zimbabwe, on the other hand, is among the more developed of Sub-Saharan countries in terms of urban and rural infrastructure, while Lesotho only recently made its way into "middle-income" status. Yet, like Botswana, it retains many of the characteristics of a "least developed country." All of these countries are land-locked and largely dependent on South Africa's transport communications network for imports and exports. They have largely depended on the export of labor to South Africa to generate domestic revenue -- particularly in the case of Botswana and Lesotho which are virtual "economic hostages" of the Republic. In this respect, Lesotho represents the most extreme case of dependency given its geographically isolated position in being surrounded territorially by South Africa. These countries also share hard-times as a result of the global recession which has hit their mining industries (Botswana, Zambia and Zimbabwe), and by the most prolonged and severe drought in their history.

In terms of socio-economic indicators, Botswana and Lesotho show high average annual growth rates of 9.1 and 6.0 percent repsectively, although the actual impact of this growth in terms of balanced development may not accurately reflect these figures. Zambia and Zimbabwe, on the other hand, show very low rates of growth of 0.8 percent each. All four countries show relatively high population growth rates which has been of particular concern in the case of Zimbabwe, projected to have a population increase from 7 million in 1980 to 15 million by the year 2,000. The adult literacy rates are comparable range to Kenya and Tanzania: Botswana (35%), Lesotho (52%), Zambia (39%).

With regard to political stability, all four countries have shown longevity in terms of their incumbent regimes except in the case of Zimbabwe which has only been independent since April 1980. However, both Zimbabwe and Lesotho have been beset by low-level insurgencies of harassment growing out of internal political rivalries. In both cases these dissident challenges appear under control whereas in Zimbabwe these troubles have been more or less localized in Matabeleland province. However, these troubles have caused friction between Botswana and Zimbabwe. Zimbabwe's political transition is still underway with the incumbent regime committed to constructing a one-party socialist state, although tolerance of a mixed economy has been voiced. Zimbabwe's socialist ideological orientation incorporates a philosophy of self-reliance similar to that of Tanzania while Botswana has long had a self-help/reliance tradition expressed in its Youth Work Brigades movement.

Within a subregional context, all four countries are members of the Southern African Development Coordination Conference (SADCC) and the Preferential Trade Area linking Southern and Eastern Africa.

DONOR/PVO PRESENCE

The following is a listing of countries selected by ADF for FY 84 programming and the number of foreign PVOs operating in those countries on the basis of dated Technical Information Clearing House (TAICH) country reports:

Country	POVs	Date
Benin	9	1976
Botswana	26	1982
Guinea	--	----
Kenya	--	----
Lesotho	27	1982
Liberia	33	1976
Mali	22	1980
Niger	19	1980
Sierra Leone	--	----
Tanzania	48	1979
Zambia	33	1978
Zimbabwe	23	1981

On the basis of the TAICH Country Reports, the countries selected for visits by ADF for field representatives for the FY 84 funding cycle have a generally moderate presence of resident international donors and PVOs. Since the severe Sahelian drought of the early 1970s, substantial donor and PVO activity has been underway in this West African subregion through the Club du Sahel. However, the PVO presence in Mali and Niger, on the basis of the 1980 TAICH reports, appears relatively modest. The highest PVO presence among the ADF countries selected is in Tanzania while for other countries selected by ADF, the PVO presence ranges from 23 to 33 PVOs per country. Several countries such as Kenya and Lesotho have enjoyed a heavy international donor presence in terms of official donor agencies such as the U.S. Agency for International Development, the Canadian International Development Agency, the Swedish International Development Agency and Britain's Overseas Development Agency as well as various United Nations agencies (such as UNDP) and private donors like Ford, Rockefeller and Carnegie Foundations.

NOTE ON REFERENCES: Statistical references in this analysis are based on the 1983 World Bank Atlas (in terms of country GNP per capita income) and Accelerated Development in Sub-Saharan Africa: An Agenda for Action. The population and population growth rate figures are largely based on World Population 1983 produced by the Bureau of the Census/U.S. Department of Commerce. On the donor/PVO profile, the TAICH Country Reports were relied upon although many are somewhat dated (some as early as 1976, others as recent as 1982).

APPENDIX F

ADF's Advisory Council Members

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SUBCOMMITTEE RECESS

Senator KASTEN. The subcommittee now stands in recess until tomorrow afternoon when we will receive testimony from Mr. William Draper, president of the Export-Import Bank. We thank you.

[Whereupon, at 3:22 p.m., Tuesday, March 19, the subcommittee was recessed, to reconvene Wednesday, March 20, 1985.]

FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1986

WEDNESDAY, MARCH 20, 1985

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 2:12 p.m., in room S–126, the Capitol, Hon. Robert W. Kasten, Jr. (chairman) presiding.

Present: Senators Kasten, Specter, Inouye, and DeConcini.

EXPORT–IMPORT BANK

STATEMENT OF WILLIAM H. DRAPER III, PRESIDENT AND CHAIRMAN, EXPORT-IMPORT BANK OF THE UNITED STATES

ACCOMPANIED BY JAMES HESS, TREASURER-CONTROLLER

OPENING STATEMENT OF SENATOR KASTEN

Senator KASTEN. The subcommittee will come to order.

Today we will receive testimony from William Draper, President and Chairman of the Export-Import Bank.

Mr. Draper, your appearance today comes 2 days after the Commerce Department announced the United States ended 1984 with a $101.6 billion trade deficit—that is the current account deficit—which is more than twice the 1983 deficit of $41.6 billion.

According to media reports, some economists are predicting that by the end of this year, the U.S. debt will exceed that of Third World nations, such as Mexico and Brazil, and they point out that the last time the United States was a net debtor was in 1914.

You are an agency of the Government which at least partially should offset this, if, in fact, you vigorously pursued your mandate. Instead, at least in the opinion of this subcommittee, you have basically declared unilateral disarmament with your proposal to eliminate the direct loan program of the Eximbank.

Today we will have a number of questions on your interest buy-down proposal after your testimony, but I should point out that it has been rejected by the Budget Committee. I believe it will be rejected by the authorizing committees in both the House and the Senate. I don't see any support for the direction that you and others at OMB are suggesting.

I would like to first of all call on Senator Inouye for any brief comments that he would have. Then we will have a summary of your testimony, understanding the full statement will be included in the record. So after we have a summary of your statement, we will go on with questions. First I would like to call on the ranking member of the subcommittee, Senator Inouye.

Senator INOUYE. Mr. Chairman, your opening statement is the one I would have wanted to make.

Senator KASTEN. Fine. We will go ahead then.

Senator Specter is joining us. Arlen, do you have an opening statement?

Senator SPECTER. No, Mr. Chairman.

Senator KASTEN. I am happy you are here.

PREPARED STATEMENT

Mr. Draper, go ahead with your statement, understanding your full statement will be made a part of the record.

Mr. DRAPER. Thank you, Mr. Chairman.

[The statement follows:]

PREPARED STATEMENT OF WILLIAM H. DRAPER, III
PRESIDENT AND CHAIRMAN
EXPORT-IMPORT BANK OF THE UNITED STATES

Mr. Chairman and Members of the Subcommittee:

It is a pleasure for me to appear before you today to present the Bank's budget request for FY 1986.

Since inception, Eximbank has supported almost $170 billion in U.S. export sales, helped sustain American jobs and contributed to the benefits that international trade brings to both buyers and sellers. While the purpose of the Bank has remained the same since its beginning -- to help to finance U.S. exports -- the Bank's emphasis has changed many times as needs have changed. Today, the Bank is meeting aggressively the challenge of continued risk-taking in difficult markets to keep trade flows going for U.S. exporters while our trading partners work out of their financing problems.

FY 1984 was a year of activity and accomplishment for Eximbank. We successfully negotiated breakthrough international agreements covering export credit agency financing. We eliminated over 80 percent of the subsidy in export credit financing compared to 1981 levels. And we linked export credit agency rates to market rates for the first time. These negotiations have paved the way for much greater use of private sector financing in support of U.S. exports.

Our direct loan activity was up 73% from FY 1983 ($1,465 million versus $845 million). Our normal guarantee and insurance activity was up 10% ($7,151 million versus $6,524 million), although our total guarantee and insurance commitments were lower in FY 1984 than in FY 1983 when the $2.0 billion in special facilities for Brazil and Mexico in FY 1983 is included.

In FY 1984 we greatly intensified our marketing efforts to encourage small and medium-sized businesses to make greater use of Eximbank financing. We introduced new programs and enhanced existing programs to make them more helpful to small businesses. We conducted a series of 34 small business export conferences from coast to coast, which had a total attendance of 3,020. We established a new Marketing Division to improve the delivery of our services to new and potential users. We began an intensive test-marketing campaign in a four-state area encompassing Wisconsin, Minnesota, Michigan and Illinois. We are testing new programs and methods of communicating with the exporting community in these states in order to develop an effective nationwide marketing program.

The results: in FY 1984 Eximbank authorized $1.8 billion in support for exports by small business. This was 13% of our budgetary authority, compared to the set-aside requirement of 6%. Of the small businesses receiving Eximbank's assistance during the year, 206 had not previously participated in our programs. Our first quarter results show that we are doing even more for small business in the current year.

If we simply took a straight line projection of our first three months' authorizations for small business, we would wind up better than 30 percent ahead of last year.

We are actively looking for credit-worthy projects to support in all of our programs. At the end of February Eximbank has nearly $5 billion in preliminary commitments and over $2 billion in financial guarantee offers outstanding. These offers were awaiting a decision by a foreign buyer. We have an additional $1 billion in PC applications being prepared for presentation to the board, which historically has approved 95 percent of the cases that come before it.

The total U.S. export value represented by this backlog is in the area of $10 billion. Of course not all these contracts will be won by the American bidder. But our outstanding financial commitments are a clear indication that we are standing squarely behind the American exporter in these difficult times.

FY 1986 Budget Request

For FY 1986, the Administration is proposing the elimination of most U.S. Government agency direct credit programs, including those of Eximbank. In the case of Eximbank the Administration recognizes the vital role it plays in supporting exporters where they face foreign government subsidized below-market, fixed-rate competition.

Therefore we are proposing a new interest matching (I-MATCH) program where private sector financial institutions will fund export loans under Eximbank's direction and guarantee, and Eximbank will continue to provide the subsidy element necessary to match the foreign competition.

The I-MATCH program is a fully workable substitute for Eximbank's Direct Loan Program, Medium-Term Credit Program and Small Business Credit Program. The cost to foreign borrowers will be unaffected by the substitution of the current loan programs by the I-MATCH program.

The Bank's budget request for FY 1986 consists of $12.0 billion for guarantees and insurance. Of this up to $1.8 billion may be committed with direct interest subsidies. These direct interest subsidies will not exceed $100 million, estimated on a present value basis on the date of each commitment, net of related application fees.

We are also requesting $18.000 million for administrative expenses.

This increase in insurance and guarantee authority to $12 billion from $10 billion in the current year will enable us to support at least $14 billion in U.S. exports. By way of comparison, in each of the last two fiscal years the Bank has supported between $10 billion and $11 billion in exports.

I-MATCH

The introduction of I-MATCH will enable us to make a significant contribution to the number one problem facing our nation today -- reducing the massive Federal budget deficit. By getting Eximbank out of the direct lending business, we can reduce the budget deficit by $3.4 billion over the next three years. At the same time I-MATCH will enable Eximbank to continue to support American exporters facing subsidized foreign government financing.

The Bank's direct lending program has played a critical role. Through this program we have been able to offer American exporters below market, fixed-rate medium and long-term financing.

We are proposing to terminate the direct lending function in a manner consistent with changes being made in other agencies. But the I-MATCH program will enable us to continue to provide exporters with the lowest interest rates and longest terms available under an international agreement among the leading exporting nations. The method will be different, but the effect will be the same.

Under the administration's proposal Eximbank will be able to use $100 million of its resources, calculated on a present value basis, to buy down commercial interest rates to minimum consensus rates agreed by members of the Organization of Economic Cooperation and Development (OECD). In addition the Bank can apply the funds it receives from its 2% application fee to this interest "buy-down" pool. This could bring the total available up to $136 million.

With these funds we calculate we can provide exporters with $1.8 billion in below-market fixed rate financing to meet subsidized foreign competition. That's over $300 million more than we authorized in our direct lending programs last year. And it could support some $3 billion in U.S. exports.

Our I-MATCH program will look just like our direct credit program to both the exporter and the foreign buyer. Moreover, we intend to make the same internationally competitive rates available under our medium term credit program and our small business credit program. We will continue to give priority to serving the needs of small businessmen competing in the international marketplace.

Here's how it will work. Let's say that we decide to finance $10 million in U.S. services for pre-construction engineering design work in Korea under our Engineering Multiplier Program. In accordance with the OECD Arrangement the buyer has to make a 15% cash down payment. Under our present direct lending program we would go to the U.S. Treasury and borrow $8.5 million. We would then lend it to the Korean buyer at 10.7%. This is the consensus rate for five-year loans in the intermediate category of countries. (Of course, we don't actually send the money out of the country. It is paid to the U.S. seller and becomes a debt to us to be repaid by the foreign buyer.) But the Treasury does have to go into the market and borrow the money to lend to us. This increases the Federal Budget deficit.

Under the new I-MATCH program we won't go to the Treasury. Instead we will find a private lending institution offering the best fixed-rate interest rate. We will use that institution to fund the loan. Let's say they charge 12.5% interest -- which is quite realistic today. Of that 12.5% interest rate, the Korean buyer would pay 10.7%. That is the consensus rate for Korea, and would match rates offered by our foreign competition. Eximbank would pay the other 1.8% under our I-MATCH program over the five-year loan period. We would calculate the subsidy cost on a present value basis.

By switching from the present system of making disbursements and waiting for repayments to be made, to buying down interest rates, we can contribute $3.4 billion in savings toward the absolutely critical task of reducing the Federal Budget deficit. And we can still enable American exporters to compete on equal financing terms.

Since the I-MATCH program was announced we have been very actively involved in discussing the program and its implications with exporters, bankers and foreign buyers. There have been a number of misconceptions about the program, and a number of legitimate concerns.

Our approach has been to inform and to listen. We are explaining the broad outlines of the program. We are soliciting suggestions for making it attractive to a broad spectrum of potential users.

I would like to address several concerns that various groups might have regarding the I-MATCH program.

1. We feel the private market will be able to provide $1.8 billion in fixed-rate financing for periods of up to 10 years. Adequate funds are available to finance this entire amount through the Private Export Funding Corporation (PEFCO). PEFCO, which is owned by 55 banks and seven industrial corporations, was created for this purpose. It raises money, not on its own balance sheet, but on the full faith and credit guarantee of the Export-Import Bank of the United States. Although we are confident PEFCO can do the job, we are actively looking for alternate sources of fixed rate funds from insurance companies, pension funds, commercial banks and investment banks.

2. We feel that $1.8 billion is adequate to meet the demand for competitive fixed-rate financing. We calculate that we can support up to $3 billion in exports under this program alone. This $1.8 billion is more than $300 million greater than the $1.47 billion in loans the Bank actually authorized in fiscal 1984. In addition there have been significant developments in the last 18 months that suggest to me that our I-MATCH program coupled with financial guarantees on long-term loans can provide competitive financing for as much as $5 billion in exports.

For example, through an international agreement reached in October 1983, OECD consensus rates have been brought much closer to market rates and linked to movements in those market rates. This has squeezed out over 80% of the subsidy that was prevalent in export financing in the early 1980s.

Today, for example, relatively rich countries pay 12.25 percent interest for long-term loans from export credit agencies. We have special guidelines for large commercial jet aircraft and nuclear power lending rates. Minimum lending rates for aircraft purchases by any country are 12%. Minimum lending rates for nuclear power plants from intermediate countries such as Taiwan or Korea are 12.2 percent.

Because of these policies we expect to be able to effectively support U.S. exports on a competitive basis.

3. I-MATCH will not change the relationship between the exporter and Eximbank. The exporter will still deal through Eximbank. We will still offer preliminary commitments, which will give the exporter the terms of our financing, which he can include in his bid. We will undertake to find the funding, so the exporter -- and his foreign buyer -- will be unable to detect any difference between the I-MATCH program and our direct lending program.

4. Eximbank will be able to compete with foreign mixed-credits under the I-MATCH program only to a limited degree. In those circumstances where the Agency for International Development has money available for mixed-credit financing we could counter a mixed-credit offer with a true U.S. mixed-credit of our own. The Eximbank portion would be at consensus rates. The only unilateral

action we would be prepared to take under the I-MATCH program would be to "under-match" the mixed credit offer by extending the term of the loan. This is sometimes more attractive to the buyer than a shaving of the interest rate as the foreign buyer is often most interested in the actual funds he will have to pay in the near future.

I realize that there has been some concern that the I-MATCH program would sew up Uncle Sam's "deep pockets" for negotiating purposes in our attempts to reach an international agreement to end this inhumane and counterproductive practice.

But it seems to me that there has never been any correlation between the stack of chips on the table and negotiating a sensible export credit agreement. For example, in 1981 our competitors were offering export financing at 7.75 percent, and we were lending money at 8.75 percent. However, the cost of money in the market was around 15 percent. Our objective was to eliminate this negative spread. One approach might have been to "teach our competitors a lesson" by cutting the rate to 6 percent. This had the potential of touching off an even more costly export credit war. Instead we raised the rate to 10.75%. Our competitors followed us up until we all were charging the same market-related rate.

Similarly, the U.S. press was predicting Eximbank's ineffectiveness in this area last December. Yet shortly thereafter the other members of the Common Market over-ruled France -- the leading proponet of mixed-credits -- and came to the table with an improved offer on notification on mixed-credits. We continue to negotiate -- with optimism -- for an agreement which will sharply curtail the use of funds intended for humanitarian purposes to buy export orders.

There are more players in the game now. Mixed-credits are very, very costly. No one is increasing market share through its practice. The signs are that once again common sense may prevail without our pouring a few billion dollars on the fire.

5. The move from direct credits to I-MATCH isn't an attempt to eliminate support for the exporter facing subsidized foreign competition by phasing out loans. I fought for the I-MATCH program as an innovative solution in helping the budget

and in continuing full-fledged support for the American exporter. It has been accepted and endorsed by the President, who has consistently demonstrated his strong support for Eximbank.

We are certain this program will work. It will provide the American exporters with the competitive financing that Congress has directed us to offer them. We believe the levels we are requesting for the various programs are adequate to meet demand. We are convinced that the funding for them can be provided out of the private market. In short, we believe that the exporters should not fear this change.

Administrative Expenses

In addition to the I-MATCH proposal and the guarantee and insurance authority indicated earlier, Eximbank is requesting $18,000,000 to cover administrative expenses for FY 1986. This is a decline of $900,000 from the FY 1985 approved level of $18,900,000. This reduction is primarily a result of a 10% administrative service reduction and of a combination of the President's proposed 5% pay cut for civilian employees in FY 1986 and a lowering of Eximbank's personnel levels from the previously approved level of 358 in FY 1985 to 339 in FY 1986. We expect to accomplish this reduction through attrition.

In Summary

To conclude this testimony I believe that we now have a broad range of fully competitive export financing programs available to help all sizes of U.S. businesses wishing to export. Our loan programs carry the lowest interest rates and maximum terms permitted under the OECD Arrangement and they would continue to do so under the I-MATCH concept. Our guarantee and insurance programs are available to help U.S. businesses export by keeping the lines of commercial credit flowing in support of U.S. exports to a majority of the world's markets despite serious economic problems abroad.

We are proud of the part that Eximbank is now playing in the process of the rebuilding of the international economic order which is so essential to the economy of this country as well as other world trading nations. Eximbank has altered its emphasis many times over the past half-century in providing assistance to U.S. exporters, and we believe that we are in a good position today to have taken the steps necessary to be able to meet today's special challenges.

The development of the I-MATCH program will enable Eximbank to continue to fully support American exporters in the face of officially subsidized foreign competition. It also addresses the most critical economic problem of our time: the massive and overwhelming budget deficit.

Thank you very much. I would be happy to answer any questions.

SUMMARY STATEMENT

Mr. Draper. It is a pleasure for me to appear before you today to present the Bank's budget request for fiscal year 1986.

Fiscal year 1984 was a year of activity and accomplishment for Eximbank. We successfully negotiated breakthrough international agreements covering export credit agency financing. We eliminated over 80 percent of the subsidy in export credit financing compared to the 1981 levels. And we linked export credit agency rates to market rates for the first time. These negotiations have paved the way for much greater use of private sector financing in support of U.S. exports.

Our direct credit activity was up 73 percent from fiscal year 1983—$1.5 billion versus $845 million the year before. Our normal guarantee and insurance activity was up 10 percent—$7.2 billion versus $6.5 billion—excluding the $2 billion in special facilities for Brazil and Mexico authorized in fiscal year 1983.

SMALL BUSINESS ACTIVITY

In fiscal year 1984 we greatly intensified our marketing efforts to encourage small and medium sized businesses to make greater use of Eximbank financing. We introduced new programs and enhanced existing programs to make them more helpful to small businesses.

We conducted a series of 34 small business export conferences from coast to coast which had a total attendance of 3,020 people. We established a new Marketing Division to improve the delivery of our services to new and potential users. We began an intensive test-marketing campaign in a four-State area encompassing Wisconsin, Minnesota, Michigan, and Illinois. We are testing new programs and methods of communicating with the exporting community in these States in order to develop an effective nationwide marketing program.

The results: In fiscal year 1984, Eximbank authorized $1.8 billion in support for exports by small business. This was 13 percent of our budgetary authority, compared to the set-aside requirement of 6 percent. Of the small businesses receiving Eximbank's assistance during the year, 206 had not previously participated in our programs. Our first quarter results show that we are doing even more for small business in the current year.

POTENTIAL BUSINESS

We are actively looking for credit-worthy projects to support in all of our programs. At the end of February, Eximbank had nearly $5 billion in preliminary commitments for direct credits and over $2 billion in financial guarantee offers outstanding. These offers were awaiting a decision by a foreign buyer. We have an additional $1 billion in preliminary commitment applications being prepared for presentation to the board.

The total U.S. export value represented by this potential business is in the area of $10 billion. Of course, not all these contracts will be won by the American bidder. But our outstanding financial commitments are a clear indication that we are standing squarely behind the American exporter in these difficult times.

PROPOSED I-MATCH PROGRAM

For fiscal year 1986, the administration is proposing the elimination of most U.S. Government agency direct credit programs, including those of Eximbank. In the case of Eximbank, the administration recognizes the vital role it plays in supporting exporters where they face foreign government subsidized fixed-rate competition.

Therefore, we are proposing a new interest matching program, called I–MATCH, where private sector financial institutions will fund export loans under Eximbank's direction and guarantee, and Eximbank will continue to provide the subsidy element necessary to match the foreign competition.

The I–MATCH program is a fully workable substitute for Eximbank's direct loan program, medium-term credit program and small business credit program. The cost to foreign borrowers will be unaffected by the substitution of the I–MATCH program for the current credit programs.

The Bank's budget request for fiscal year 1986 consists of $12 billion for guarantees and insurance. Of this, up to $1.8 billion may be committed with direct interest subsidies under the I–MATCH program. These direct interest subsidies will not exceed $100 million, estimated on a present value basis, net of related application fees.

This increase in insurance and guarantee authority to $12 billion from $10 billion in the current year will enable us to support at least $14 billion in U.S. exports. By way of comparison, in each of the last 2 fiscal years the Bank has supported between $10 and $11 billion in exports.

We are also requesting $18 million in administrative expenses.

With regard to I–MATCH, the introduction of I–MATCH will enable us to make a contribution to the number one problem facing our Nation today—reducing the massive Federal budget deficit, which is so important to you Senators. By getting Eximbank out of the direct lending business, we can reduce the budget deficit by $3.4 billion over the next 3 years. At the same time I–MATCH will enable Eximbank to continue to support American exporters facing subsidized foreign government financing.

HOW I-MATCH WILL WORK

Under the I–MATCH program, we can continue to provide the lowest interest rates and longest terms available under an international agreement among the leading exporting nations.

Our I–MATCH program will look just like our direct credit program to both the exporter and the foreign buyer. Moreover, we intend to make the same internationally competitive rates available under our medium-term credit program and our small business credit program. We will continue to give priority to serving the needs of small businessmen competing in the international marketplace.

I–MATCH will not change the relationship between the exporter and Eximbank in any way. The exporter will still deal through Eximbank. We will still offer preliminary commitments, which will give the exporter the terms of our financing which he can then include in his bid. We will undertake to find the funding, so the exporter—and his foreign buyer—will be unable to detect any difference between the I–MATCH program and our direct lending program. I think that is a basic thing to understand.

FUNDING I-MATCH

Furthermore, adequate funds are available to finance all of our funding needs through the Private Export Funding Corporation. PEFCO, which is owned by 55 banks and seven industrial corporations, was created for this purpose almost 15 years ago. It raises money, not on its own balance sheet but on the guarantee of the Export-Import Bank, which has the full faith and credit backing of the United States. Although we are confident PEFCO can do the job, we are actively looking for alternate sources of fixed rate funds from insurance companies, pension funds, commercial banks and investment banks. If they don't come in, we still have PEFCO, which we have been working with for almost 15 years, to do the job.

SUPPORT FOR EXPORTS IN FISCAL YEAR 1986

We feel that the $1.8 billion in subsidized direct lending is fully adequate to meet the demand for competitive fixed-rate financing. This $1.8 billion is $300 million greater than the $1.5 billion in direct credits the Bank actually authorized in fiscal 1984. We calculate that we can support up to $3 billion in exports under this program alone.

In addition to this $1.8 billion of I–MATCH, we expect to be able to use another $2 billion of our guarantee authority for cases where no subsidy is required because consensus rates are now closely related to market rates, thanks to the negotiations that have preceded this.

Because of these policies, we expect to be able to effectively support U.S. exports on a competitive basis.

MIXED CREDITS

However, Eximbank will be able to compete with foreign mixed credits to only a limited degree under the I–MATCH program. In those circumstances where the Agency for International Development has money available for mixed credit financing, the United States could counter a foreign mixed credit offer with a true mixed credit of our own. The Eximbank portion would be at consensus rates.

The only unilateral action Eximbank would be prepared to take under the I–MATCH program would be to "under-match" the mixed credit offer by extending the term of the loan. This is sometimes more attractive to the buyer than shaving the interest rate as the foreign buyer is often more interested in the actual funds he will have to pay in the near future.

I want to assure you that the move from direct credits to I–MATCH is not an attempt to eliminate support for the exporter facing subsidized foreign competition by phasing out loans. I fought for the I–MATCH Program as an innovative solution to help the budget and to continue full-fledged support for the American exporter. It has been accepted and endorsed by the President of the United States, who has consistently demonstrated his strong support for Eximbank.

We are certain this program will work. It will provide American exporters with the competitive financing that Congress has directed us to offer them. We believe that the levels we are requesting for the various programs are adequate to meet demand. We are convinced that the funding will be provided out of the private market with our help. In short, we believe that the exporters should not fear this change.

I would be happy to answer any questions you have.

Senator KASTEN. I have a number of questions. Senator Specter has a time problem so I will yield my time to him at this point. Then we will go to Senator Inouye.

EFFECT OF EXIM LOAN PROGRAM ON BUDGET

Senator SPECTER. Thank you very much, Mr. Chairman.

Mr. Draper, as I hear you testify, it is all going to be rosy and the substitution is not going to be a problem. It is a very complicated matter to project fully as to how it is going to work out.

Coming from a State like Pennsylvania with a great many major companies which will depend on the Export-Import Bank, I have had many, many objections to the substitution. Westinghouse, Rockwell, Babcocks, Wilcox, many people are enormously concerned.

I don't see on the very basic level how the program will do anything but cut the coverage when you project the kinds of savings on the deficit which you have. How can you have a savings with this deficit and still have the same sweep of support to match foreign interest rates?

Mr. DRAPER. Senator, my feeling is that the Eximbank direct loans should never have been in the budget in the first place because they are authorizations of loans that collect interest, where we have to have a reasonable assurance of repayment to make them. Our loans, therefore, should not be in that budget in the first place.

But that $3.4 billion adds up as part of the $200 billion deficit that you are talking about trying to reduce. So this will help you do that by simply removing it from calculation in the budget.

The only effect on the budget will be the amount of subsidy, which is a far smaller number. We are asking for $100 million. Calculated on that basis, we have used only $111 million in the last 2 years.

Senator SPECTER. If you are talking about a bookkeeping change, why not change the bookkeeping approach as opposed to the substantive approach?

Mr. DRAPER. I think that would be something that would be a good idea. Maybe we should do that. Why don't you do that?

Senator SPECTER. Maybe we can do that here in the subcommittee.

Mr. DRAPER. I think that is a very good idea. I agree. I think you should change that.

Then, moreover, if you will give us this authority to have a subsidy, to buy down the interest rate from what is the commercial rate to the level that we have negotiated with these other foreign countries—the OECD minimum concensus rate—then we can be fully competitive, as we have been under the direct credit program.

EFFECT OF PROPOSED CHANGE ON U.S. COMPETITIVENESS

Senator SPECTER. Mr. Draper, the concern I have is an obvious one. We do have to deal with deficit cutting measures, but when we talk about the kinds of assistance to enable us to compete with foreign manufacturers, we talk about balance-of-trade issues where we are going from bad to worse, we talk about *x* number of dollars and *y* number of jobs. I have heard all sorts of figures there. But we do know when we increase our exports, it is a tremendous factor on the job market.

Earlier today there was an enormous crowd on the steps of the Department of Labor. The fundamental issue is extension of unemployment compensation benefits. I am sorry to say most of the crowd was from Pennsylvania.

I started talking about extension of unemployment compensation benefits. Nobody wanted to hear about that. They wanted to, more properly, hear about job opportunities. There are people there who deal specifically with the kinds of companies which would be supported by the Export-Import Bank.

I believe that we are going to have to have very extensive hearings, Mr. Chairman, to fully understand the ramifications here. I can't help but feel on the review I have made, which has not been a very in-depth review so far, and the responses I have had from major manufacturers, competitors in the international market, that this new program is going to cut back on the ability of your organization to help finance American companies compete on a level playing field with foreign producers.

Mr. DRAPER. If I felt that, Senator, I wouldn't be up here testifying for this program. I think it is a perfect mirror image of the direct credit program but where we are doing the direct funding from the private sector, which I don't think any of you would basically complain about. What we would be doing is paying a subsidy directly to an organization we have been working with, if we use only PEFCO. Many banks don't want a long-term fixed interest loan on their books. So they will perhaps only participate on the front end, which an investment banker would put together, or insurance companies, below something PEFCO could offer us in interest rates.

If none of them compete, we still have PEFCO with whom we have worked for almost 15 years. We have gone up. In 1940 we did $1.5 million. In 1980 we did $1.5 billion through PEFCO. So there is no reason we can't do $7, $10, $12, $20 billion through PEFCO. They borrow on the credit risk of the U.S. Government, not on the basis of their balance sheet. There is no risk.

Everybody on this committee talks about a risk, but there is no risk. We have done this program before.

FEARS ABOUT PROPOSAL

Senator SPECTER. I tell you what I would like to do. I don't want to take up any more time at this point. What I would like to do is have you sit down with people who have brought complaints to me about the operation of the program projected, sit down with my staff and your staff and see precisely how you deal with the very concrete objections that they make.

Mr. DRAPER. That is a good idea.

Senator SPECTER. Because there is a lot of terror out there about what this program is going to bring.

I must say that when I hear you talking about cutting the deficit and having savings, I can come to no other conclusion, prima facie, but that program is going to be cut back. Or else how would you have savings?

Mr. DRAPER. No; it is not.

Senator SPECTER. All bookkeeping?

Mr. DRAPER. Let's recognize it is transferring off the budget. We are not taking any savings out of the exporter's hide. The exporter will see no difference. His buyer will see no difference in the interest rate charged or in the length of the term.

There was a statement made by the chairman that we haven't been aggressive enough. We have approved 95 percent of all the requests that have come before the Board of the Eximbank. Now, you can't do much better than that. And it is the same number the last 2 years, 95 percent. It is within a fraction of the same number in both cases.

So there is no way we can be more competitive. We are at interest rates that are as low as any chargeable by the foreign governments, and we will continue to have that aggressive stance under this new program. So I don't think there is good reason to be panicky, except that it is a change. The only thing you are fearing is a change.

Senator SPECTER. Let's pursue it on the basis I suggested.

Mr. DRAPER. I agree.

Senator SPECTER. Maybe we can come to grips with the concern out there. Thank you very much, Mr. Draper.

Thank you very much, Mr. Chairman. I appreciate your yielding time.

Senator KASTEN. Thank you, Senator.

Senator Inouye?

USE OF LOAN AUTHORITY

Senator INOUYE. Thank you, Mr. Chairman.

Speaking about your aggressiveness, Mr. Draper, let's take a look at the direct loan authority provided by Congress. In fiscal 1983, we provided $4.4 billion for direct loan finances. Of that amount, how much did you use?

Mr. DRAPER. In 1983 we used $1.5 billion of direct credit and about $7 billion of guarantee and insurance.

Senator INOUYE. So out of $4.4 billion you used about $1.5 billion?

Mr. DRAPER. On the direct credits, yes, sir.

Senator INOUYE. In fiscal year 1984 the Congress provided $3.865 billion. Of that amount, how much did you use?

Mr. DRAPER. I have that number. By the way, I gave you the number for 1984, which was about $1.5 billion. We used $845 million of the direct credit authority in fiscal year 1983, so it has increased from $845 million to $1.5 billion in 1984.

Senator INOUYE. Do you call this an aggressive effort to correct the trade imbalance?

Mr. DRAPER. Senator, you can't force a buyer to take your money unless you want to give it to him. You have given us a requirement that we have reasonable assurance of repayment and that we meet the foreign government subsidized intervention.

We are doing both those things, and we are approving 95 percent of all requests that comes before the Board. What else do you want us to do?

The problem is that the dollar is very high, and our exporters are having to charge dramatically lower rates in relation to what they did 4, 5 years ago.

COMPETITIVENESS OF EXIM FINANCING

Senator INOUYE. Isn't it true that the conditions you presented would have made it easier for exporters to just go to the private sector?

Mr. DRAPER. To go to the private sector for financing?

Senator INOUYE. Yes.

Mr. DRAPER. No; the problem is that most of our business is in the capital goods area. It is where private sector financing is not available because of longer terms, more risky areas of the world, or because there is a subsidized deal made available by the foreign governments that are competing with our exporters.

In all those where we fit in, we are competing. We can't change the price of the dollar. That is something that you just have to recognize.

You can't say that we are not being competitive or aggressive. We have gone out to try and market our programs. We have made them available to most of the large companies that were referred to by Senator Specter, who already know about our programs. They are in there.

They are not complaining about our lack of aggressiveness and I think that is not really a fair hit. They are not complaining about our lack of aggressiveness. We have had a very good response from the export community on the changes we have made. I could go through a litany of examples of ways in which we have made our programs more acceptable and usable by the exporter community over the last 4 years.

"REASONABLE ASSURANCE OF REPAYMENT" CRITERIA

Senator Kasten. I just want to interrupt for a minute.

I am tired of you talking about the Bank having to make a profit, which is something you talked about a couple of years ago. You are off that hook now about reasonable expectation of repayment.

Your job, your mandate, the reason you are there, is to meet competitive financing, to meet or beat predatory financing on the part of the French or whomever. That is your job.

Mr. Draper. I just said I am doing that.

Senator Kasten. Somehow you have been there for 4 years, and during that time this idea of making a profit and reasonable expectation of repayment continues. Your job is to provide——

Mr. Draper. I didn't say making a profit.

Senator Kasten. You said that 2 years ago in testimony before us.

Mr. Draper. No; you gave me instructions to be both competitive and self-sustaining. I said I try to do both. What I did was get very actively engaged in the OECD negotiations and brought about some major changes there.

Senator Kasten. I appreciate that.

Mr. Draper. Instead of being blasé about the job we are doing, I think we have made the Bank's numbers fit.

Senator Kasten. The job isn't to make the Bank numbers fit. The job is to meet competitive financing.

I will return this back to Senator Inouye. But I will say a reasonable expectation of repayment is not your major job.

EFFECT OF EXIM ON U.S. ECONOMY AND BUDGET

Senator Inouye. In prior years you have suggested that Eximbank programs have contributed to exports, which have both preserved American jobs and contributed to the profitability of U.S. enterprises generating more Government revenues.

Now you say that by getting Eximbank out of the direct lending business we can reduce the budget deficit by $3.4 billion over the next 3 years.

Which am I to believe? Either past Eximbank support of U.S. exports did preserve American jobs and businesses, and thereby increase the revenue base, or it did not.

Mr. DRAPER. I think my testimony says that we are trying to do the job of helping American exporters finance their exports, and by this I-MATCH program we will be able to do exactly the same thing in almost the same way, except that we make a direct payment of the subsidy to the financier, the beneficiary of that being the buyer of the equipment.

I don't believe the Exim loan program should be on the budget in the first place. I don't think any of the three of you do. I mean it doesn't belong there. It should be removed from the budget because it is an apples and oranges thing. If American business ran their business that way, that would be on a cash basis, they would never make it, they would be broke a long time ago, most of them. You can't run a business on a cash basis. I don't see how you run the Government's budget on a cash basis.

But the fact that it is there, and the Eximbank is there is a fact of life. Now, what I am suggesting is you take it off the budget and you make up for the foreign government subsidy by a direct paydown subsidy in order to meet that subsidized competition.

Senator INOUYE. Are you now suggesting that the direct loan program we have had in place over these past years did not really enhance the revenue base of our Government?

Mr. DRAPER. I don't think we are arguing that. This is like a preacher talking to the choir. I mean we all agree that the trade deficit is too high, that we want to improve exports. I believe that exports help the American economy and increase the number of jobs and so on. Of course it improves. I don't understand the question. I don't think I said anything in my testimony that said anything other than that.

EXIM'S INTEREST RATE STRATEGY

Senator INOUYE. On page nine of your statement you noted that in 1981, U.S. competitors were offering export financing at 7.75 percent while the United States was lending money at 8.75 percent. Eximbank's answer to this was to raise interest rates to 10.75 percent, instead of cutting the rate below our competitors. Your suggestion is that this was a sound move.

Why would that have been a sound move?

Mr. DRAPER. When I first came in, I had the dual instruction from Congress that I just referred to, being both self-sufficient and being competitive. That was a very difficult mandate, to put it mildly. But the job, the way I saw it, was to go over and get into the negotiations, and when I got into them, I realized there was almost zero movement. So I came back and said somebody has to take the leadership because all of these countries are cutting their own throat. The only one increasing their market share was Japan.

So in order to do something about it, I showed that we would raise our rates unilaterally. Two months later, the others came up from 7.75 percent to 10. We had gone to 10.75. We went to 12. They then agreed to a market-related system and came up to 11.3 percent on the average, most of the countries we do business with, although it was on a graded scale, depending on the country system. Then we lowered our rates right on theirs.

As I said, when I came in we were 100 basis points higher than our competition. Today we are flat on them. They charge 11.3 percent in Korea. We charge 11.3 in Korea. They charge 9.85 percent in Egypt. That is what we charge.

Senator INOUYE. But as you know, they compete on other elements other than interest.

Mr. DRAPER. Oh, sure. Service and price and quality. That is what we want to compete on. What we are trying to do is eliminate the financing as being an element of importance to the buyer.

ENFORCEMENT OF OECD ARRANGEMENT

Senator INOUYE. This I-MATCH proposal that you have—I presume would enable you to buy down interest rates to a minimum rate agreed to by members of the OECD. How do you enforce this OECD agreement?

For example, if OECD provides export financing at an interest rate lower than the agreement, what would be the penalty, and how would it be imposed?

Mr. DRAPER. Of course, that has nothing to do with I-MATCH. That is just the way in which the program has been working and would continue to work presumably.

There is an understanding among these 22 countries that they will charge no less than the interest rate allowable. We have found really very seldom when they do charge below it. They mix aid money in sometimes to lower that interest rate. That is called a mixed credit.

I think there have been 23 cases brought to our attention this year where that has happened. But other than those, we haven't found they have actually gone below the interest rate.

The enforcement mechanism is more or less notification from their own brotherhood that they are breaking a rule that they agreed to. It is like any other international agreement. They just don't do it blatantly. You know, there may be some special sweetener that is thrown in in some way we don't know about. But as far as the interest rate goes, the first one who will tell you about it is the customer, because the customer wants you to match. That is the reason we are all doing it.

In fact, there was $10 million of subsidy among the top three or four countries in 1981. That has been dramatically reduced for all countries because this is basically a good thing to somehow avoid a trade war, which we all know is not beneficial.

EFFECT OF ELIMINATING DIRECT LOANS

Senator INOUYE. By eliminating the direct loan program, will the Eximbank not be denying itself necessary resources to counter predatory financing?

Mr. **Draper**. No; we really wouldn't. I mean we would do it exactly the same way. We would just do it with a subsidy you would allocate to us.

Senator **Inouye**. How would you cover the mixed credit schemes now being used by France?

Mr. **Draper**. A mixed credit is a separate item. I do not believe we would be able to do more than to hope that AID would have money in the country, say France, in which we were competing.

Say we were trying to get some business from Egypt and if AID had some aid money available for Egypt, then we would mix that credit with our own interest rates that are at the lowest allowable by the concensus.

LEVEL OF EXPORTS SUPPORTED UNDER I-MATCH

Senator **Inouye**. You have stated that the Bank feels that $1.8 billion is adequate to meet the demands for competitive fixed rate financing. If that is true, what do you mean when you say, "We can support up to $3 billion in exports under the I-MATCH program?"

Mr. **Draper**. The way we came to that is this: if you split that $1.8 billion down into three parts, $600 million let's say is aircraft, and we usually support aircraft at 42.5 percent, so 42 percent into the $600 million would give about $1.5 billion of aircraft exports that would take place with $600 million of financing. Another $600 million would be, let's say, used for the category three countries, which is the lowest interest rate, 9.85, and the other $600 million for let's say the category two countries. They seem to come in about that way. If you take that other $1.2 billion that goes in normally for nonaircraft and assume that we give 75 percent cover, which is what we usually do, 75 percent of the total export is what we will finance, so 75 percent into the $1.2 billion gives $1.6 billion. So between the $1.5 billion of aircraft and the $1.6 billion of nonaircraft financing, that would amount to over $3 billion of exports.

Senator **Inouye**. That is your assumption.

Mr. **Draper**. Yes; it is an assumption based on experience.

COMMITMENT TO USE FULL AMOUNT OF AUTHORITY

Senator **Inouye**. Can you give us any assurance that, assuming we agreed with you and approved everything, your Bank will use the full authority of the I-MATCH program?

Mr. **Draper**. We have never denied we would try to use the full authority. Any time we can, we try to. I mean evidence of that is our 95 percent approval rate at the board. So we will definitely try to use the $1.8 billion if we can get it.

Senator **Inouye**. Are you satisfied that all the exporters who need help really get to the Bank?

Mr. **Draper**. Well, no, I am not. I think the small- and medium-sized ones have trouble.

Senator **Inouye**. Are they discouraged from coming to the Bank?

Mr. DRAPER. They are not discouraged by the Bank. They are encouraged to come. We have set up a marketing organization. We have set up trial marketing testing programs. We have hired a public relations firm, and we are trying to get them to spell out new means of reaching the customers who might not know about us.

We have a variety of programs. We have four offices for FCIA—FCIA being the Foreign Credit Insurance Association—around the country, and we are turning them into marketing associations.

So our whole effort is to try to increase the use, because I think many newer or younger companies don't know about us, and they are adding jobs. As you know, most of the jobs in the country that are being added are coming from young growth companies. So we are trying to reach out to those.

We have had meetings around the country trying to get them. We have a hotline. We have the whole series of marketing attempts to try to reach them. But we are certainly not discouraging them from coming. I don't know how we would ever do that. Anybody who did that, we try to fire.

Senator INOUYE. I have other questions, Mr. Chairman, but I think I have taken up enough time.

EXPORTERS' OPINION OF I-MATCH PROPOSAL

Senator KASTEN. If you have additional questions, we will submit them.

Mr. Draper, your job is to serve this exporting constituency. Your job is to meet or match or beat predatory financing on the part of others. Within this constituency, do you know of any single person, any single company, who in fact supports this change that you say is essentially cosmetic accounting and won't make any difference, in fact will work to spur imports? Do you know one major exporter anywhere in the country who is standing up in favor of what you are saying?

Mr. DRAPER. Could I answer by saying it is not an improvement for them.

Senator KASTEN. I didn't ask whether it was an improvement or not. Do you know one single exporter in the United States of America, in the constituency that you serve, that is in favor of the change that you are making?

Mr. DRAPER. We are trying to explain it——

Senator KASTEN. Answer me yes or no. Today, do you know one single exporter in the United States of America that is trying to support jobs in this country through exports that supports what you are doing? One person? One company? One name?

Mr. DRAPER. Yes; the Chamber of Commerce of the United States has said that they are not either——

Senator KASTEN. They are an organization.

Mr. DRAPER. They are for reducing the deficit.

Senator KASTEN. I am for reducing the deficit also.

Mr. **Draper.** If you don't attack that problem, then you don't understand what we are trying to do. We are trying to attack that budget deficit, and that is our whole basis of making this move.

Senator **Kasten.** There is a wide array of people, and I can name millions, who support the goals of reducing the budget deficit, but that wasn't the question. Do you know one exporter in the United States of America who supports the changes you are trying to make?

Mr. **Draper.** I think the implication of your question is not appropriate because they are happy with the programs that we have in place under the direct credit program.

Senator **Kasten.** They are happy with the program you have in place, but you are not using what you have. But they certainly aren't happy with the change, in my understanding.

Mr. **Draper.** Well, you are not understanding it properly, Senator, because they are not unhappy with the direct credit program that we have now. I am trying to change the direct credit program to make something equally good so they have no reason to come up here and testify that they are for it.

Senator **Kasten.** They will have an opportunity to testify for it or against it, but I would suggest to you that the present circumstance is that they are not unhappy with the program but they are unhappy with the present administration of the program as it has been administered over the past 2 or 3 years.

Mr. **Draper.** I have to disagree with you.

Senator **Kasten.** They are unhappy with that.

Mr. **Draper.** I have 100 who will say that is not true. They will come up and testify. And if you want me to get them to do so, I will do that, because I don't agree with you, and I don't even think you do have the facts on that.

[Clerk's note: The following material was provided to the subcommittee subsequent to the hearing.]

CHAMBER OF COMMERCE
OF THE
UNITED STATES OF AMERICA

ALBERT D. BOURLAND
VICE PRESIDENT
CONGRESSIONAL RELATIONS

1615 H STREET, N.W.
WASHINGTON, D.C. 20062
202/463-5600

March 20, 1985

The Honorable William H. Gray, III
House of Representatives
Washington, D.C. 20515

Dear Mr. Gray:

During the Budget Committee's consideration of the Fiscal Year 1986 Budget Resolution, the Chamber of Commerce of the United States respectfully urges you to support the retention of the Export-Import Bank's direct lending program, although the Chamber would accept reductions in its funding.

At issue is the Administration's proposal to replace the Eximbank's direct lending program with an interest rate matching system, the "I-Match" program. The Chamber's reasons for supporting the direct lending program are set forth in the enclosed testimony, given before the House Committee on Banking, Finance and Urban Affairs' Subcommittee on International Trade, Investment and Monetary Policy on March 7. Our conclusions may be summarized as follows:

- o The direct loan program has a proven track record. For 50 years it has helped U.S. exporters to offset the most blatant forms of foreign government export subsidies.
- o Specifics of the proposed I-Match program raise serious concerns about its ability to provide exporters with support equivalent to the current program. These concerns must be satisfied before serious consideration is given to the I-Match program.
- o Funds disbursed under the direct lending program are repaid with interest. Under the I-Match program they are not. The proposed program would, therefore, involve a higher cost to the taxpayer.
- o The U.S. direct lending program has been a major factor in bringing about the progress already achieved in the Organization for Economic Cooperation and Development's negotiations to reduce export credit subsidies. Surrendering such an effective chip makes no sense when so much more remains to be negotiated.
- o The direct lending program does not represent "fat" in the budget. It is a vital factor in competing, particularly for the large-scale projects that involve considerable follow-on export business for the successful bidders. With hundreds of thousands of jobs at stake, these projects are targeted by the export credit programs of foreign governments. U.S. companies which are unable to obtain the necessary export financing at home can and do turn to producing abroad in order not to lose this business.
- o The I-Match program would effectively remove Eximbank from any mixed credits activity at a time when the mixed credits programs of foreign governments are escalating at the expense of U.S. exports.
- o The U.S. trade deficit is at record levels and still growing. This is not the time to add to the problems of exporters, who are severely handicapped in world markets by the high U.S. dollar, by switching to an untried export finance program. Congress has the option of lowering the authorization levels of the direct lending program without destroying its viability. Further, the I-Match program could be started on a limited pilot basis, to test it under actual conditions.

For further information, please contact Fred Stokeld, telephone 463-5488.

Sincerely,

Al Bourland

Albert D. Bourland

LET'S REBUILD, AMERICA
IN THE 80's

Statement of the Chamber of Commerce of the United States

BY: STEPHEN SOHN

The Chamber of Commerce of the United States is the world's largest federation of companies and associations, and is the principal spokesman for the American business community. It represents more than 180,000 companies plus several thousand other organizations such as local/state chambers of commerce and trade/professional associations.

More than 85 percent of the Chamber's members are small firms with fewer than 100 employees. Yet, virtually all of the nation's largest companies are also active members. We are particularly cognizant of the problems of smaller businesses, as well as issues facing the business community at large.

Besides representing a cross section of the American business community in terms of number of employees, the Chamber represents a wide management spectrum by type of business and location. Each major classification of American business — manufacturing, retailing, services, construction, wholesaling, and finance — numbers more than 14,000 members. Yet, no one group constitutes as much as 26 percent of the total membership. Further, the Chamber has substantial membership in all 50 states.

The Chamber's international reach is substantial as well. It believes that global interdependence provides an opportunity, not a threat. In addition to the 50 American Chambers of Commerce Abroad, an increasing number of members are engaged in the export and import of both goods and services, and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Positions on national issues are developed by a cross section of its members serving on committees, subcommittees and task forces. Currently, some 1,800 business people participate in this process.

I am Stephen Sohn, President of BT International Trading Corporation, a subsidiary of Bankers Trust Company. I am also Chairman of the Export Finance Working Group of the Export Policy Task Force of the United States Chamber of Commerce. I am testifying on behalf of the Chamber today.

The Chamber welcomes this opportunity to present its views on the Administration's proposal to replace the Export-Import Bank's direct credit program with an interest rate matching system.

Summary of Eximbank Interest Rate Matching Program

The Eximbank announced its interest rate matching program, "I-Match," on February 5, 1985. Participating financial institutions under I-Match will, as stated by the bank, provide "a long-term fixed rate loan at OECD [Organization for Economic Cooperation and Development] International Agreement rates in support of a transaction involving the sale of U.S. exports. In turn, Eximbank will fully guarantee the principal interest on the loan and also pay to the financial institution an additional amount of interest, if necessary, so as to enable it to earn a market rate of return on the loan." The direct interest subsidy would be limited to $100 million for Fiscal Year 1986 (FY'86), net of fees estimated to add another $36 million, which would support approximately $1.8 billion in total export volume.

The new program for "buying down" private sector export loans, to levels that would meet foreign subsidies, would replace the existing direct loan program of Eximbank. Total Eximbank guarantee and insurance authority would be increased from $10 billion to $12 billion.

Summary of Chamber Position on Direct Loan Program and Proposed Interest Rate Matching Pogram

Essentially, the Chamber urges retention of Eximbank's direct loan program, although we would accept reductions in its funding. It is a time-tested program that has proven to be America's most effective weapon in the OECD negotiations and has demonstrated its cost-effectiveness in actual practice. The Chamber does not support the replacement of the direct lending program by the proposed interest rate matching program. Too many unanswered questions exist about the proposal's ability to provide U.S. exporters with the type of support now provided by the direct lending program.

Chamber's Position on Administration's Budget Proposals

On February 13, the Chamber's Board of Directors met to consider a comprehensive Chamber response to the Administration's budget proposals, with particular reference to programs of concern to business.

Accordingly, the Board stated that across-the-board government spending reductions should constitute the first priority of government policy and that business would accept a fair share of reductions in business-oriented programs. Such reductions would include programs in the Small Business Administration (SBA) and the direct loan program of the Export-Import Bank. The Board, however, did not concur with the Administration's proposal to eliminate the Eximbank's direct loan program. The Chamber maintains that elimination of this program would gravely impair the Bank's ability to perform its central function, to offset the distorting effects of foreign government export support practices on the competitive position of U.S. firms in export markets.

Long-Standing Chamber Support for Eximbank's Direct Loan Program

The Chamber's long-standing support for a strong and aggressive Export-Import Bank derives from its basic conviction that what best serves the U.S. economy are trade relations based on market forces, not subsidies or protection. Therefore, our goal continues to be the elimination of export credit subsidies worldwide. We strongly support U.S. negotiations towards this goal.

To assist in moving world conditions toward the ideal of non-subsidized competition, U.S. institutions -- including the Eximbank -- must respond to reality. And reality is characterized by widespread foreign government credit subsidies and certain capital market imperfections. Lost sales which a U.S. supplier should have won, based on commercial terms of a competitive bid, mean lost jobs, lost economic growth, lost tax resources and lost opportunities for U.S. technological leadership. Foreign credit subsidies should not be permitted to deny American firms and workers the benefits of trading at our full export potential.

The Eximbank has, can and should play a strong role in helping to correct the distorting effects of foreign government finance subsidies and other capital market imperfections. By neutralizing these distortions, Eximbank helps restore competition of export sales to a market basis and strengthens the ability of the U.S. to negotiate for a stronger discipline on export credit subsidies.

The direct loan program is a particularly potent factor in the Bank's ability to respond quickly and effectively to foreign government intervention in the export finance market. Within the limits of its application to certain types of transaction and regions, it has a degree of flexibility and impact that has played a major part in the efforts to bring about a negotiated settlement to government export subsidy programs.

General Comments on Proposal to Eliminate Eximbank's Direct Loan Program

The $123 billion U.S. trade deficit recorded in 1984 is a blatant reminder that American exporters need every form of support available to them. Without the Eximbank's direct loan program, our trade deficit would be even greater. One would think that very sound reasons would be advanced to justify the elimination of this Congressionally-mandated, proven program, in favor of an untried system. However, little evidence has been presented to show that the proposed I-Match program would be able to provide equivalent support, either in the immediate future or in the long run.

We must emphasize that our objections are not directed to the I-Match proposal *per se* but reflect serious doubts about its ability to provide exporters with support equivalent to that provided by the direct loan program. Similarly, in these times of massive federal deficits, the business sector is ready to lend its support to realistic proposals for reducing government spending. The elimination of the direct loan program appears to represent more of an accounting exercise than a tangible savings in direct federal expenditures. Generating support for a proposal that would not even achieve its avowed objective is difficult.

A further major reservation with the proposed change is that it effectively takes the Eximbank out of the mixed credits program. Foreign mixed credits activity continues unabated, and the only reasonable hope for its eventual elimination lies in the willingness of the United States government to support its export sector aggressively with similar resources and commitment.

The Administration has justified elimination of the direct lending program on the grounds that much progress has been made in the OECD negotiations. Significant progress has been achieved and is applauded by the export sector. Any progress made, however, does not extend to the competition in the important developing country markets: predatory export financing and mixed credits are rife in these regions, and elimination of the U.S. direct lending program would remove the major U.S. bargaining chip at a time it is most needed.

The Administration has proposed an expansion of the Eximbank's guarantee program. The Chamber supports this strongly. In fact, we would prefer that all Eximbank export support be in the guarantee and insurance areas.

Unfortunately, we still live in a world in which predatory export financing is a fact of life. The direct loan program is one of the few weapons available to exporters in responding to foreign direct credit activities. To eliminate the direct loan program would therefore simply add to the uncompetitive burden already being carried by U.S. exporters.

We must also recognize that successful bids for large-sized items and projects are based on continuity of exporter-oriented programs due to the long lead times needed for construction and installation. Once again, the U.S. government is asking exporters and foreign customers alike to amend their usual negotiating format and planning basis. Many companies have already shifted their sourcing abroad because of the overvalued dollar, but such a change by Eximbank essentially eliminates the possibility of these sales being sourced in the U.S. once the major foreign currencies strengthen against the dollar.

Before turning to examine the proposed interest subsidy program in detail, I would like to respond to the assertion that the direct lending program is suspect because its authorization levels have not been fully utilized in recent years. This reflects the reality of depressed foreign export demand and the effects of the high dollar. When business strengthens in foreign markets, the demand by U.S. exporters for direct credits will pick up again.

Further, Eximbank has not been as accessible as formerly. For example, it is not ready to provide direct loan support for every export transaction encountering foreign government subsidies. For project financing in Africa, for instance, Eximbank will only consider a few countries while in Latin America many of the key markets are not covered.

Eximbank's I-Match Program

The I-Match Program was announced with little opportunity for the business sector to comment or otherwise offer suggestions for modifications. Many conceptual and technical aspects of the proposal require serious and careful consideration before a program is developed that would be truly competitive with the export finance program of other foreign countries.

Accordingly, a detailed study should be undertaken by Eximbank in conjunction with the exporting and financing communities to determine if an interest subsidy program can be developed that would provide support equivalent to that of the direct lending program. I understand that the Subcommittee has had access to Senator Pete Domenici's survey of exporters and financial houses on the feasibility of the interest rate subsidy proposal. The responses to this survey, although undertaken on extremely short notice, consistently identify the same objections to the proposed system. These may be summarized as follows:

Limitations on Sources of Private Capital

The I-Match program has built-in constraints which, despite its "competitive bidding" claims, would exclude important sectors of the capital market. Most commercial banks prefer to conduct their lending, certainly for large amounts, on a floating-rate basis, but the program will be based on fixed rates of interest. According to the responses to the Domenici survey, even the major banks would have problems participating on a fixed-rate basis, in view of the basic banking necessity to hedge their costs. Smaller regional banks, with limited access to Treasury backup funding, would be virtually excluded.

In the case of the regional banks, this has an added negative impact as these institutions play a significant role in the export credit servicing of smaller and medium-scale businesses. Businesses in these categories have borne a disproportionate cost in the relative decline of U.S. export performance. Unlike larger enterprises, they are unable to offset some of the effects of the high dollar and foreign export subsidies by sourcing production abroad.

Foreign banks, whose participation in the syndication of major U.S. export transactions is often critical, would likewise encounter great difficulties in utilizing the interest rate subsidy. The requirements of the program, particularly the fixed-rate mandate, would discourage foreign bank participation with a consequent detrimental effect on U.S. export volume.

The fixed-interest rate provisions of the I-Match program also pose crippling restraints on the availability of capital sources other than commercial banks. The transferability restrictions, for example, respecting trade in Eximbank's guaranteed obligations, would probably prevent insurance companies and other institutional lenders from participating in the program. Related technical problems, contributing to the same effect, would include documentation, credit analyses, size of transactions, delayed procedure and maturities discrimination.

Given the I-Match program constraints on the participation of commercial banks and institutional lenders, the Private Export Funding Corporation (PEFCO) may be the only significant lending facility that could play a role. However, PEFCO raises two serious problems: the lack of competition to bid down the subsidy received by PEFCO and PEFCO's tendency to restrict the utilization of private capital sources involved in specific export transactions. This is due to the Treasury Department's policies, previously referred to in the context of transferability requirements, which guard against the possibility that Eximbank guaranteed rates compete against new Treasury issues.

Coverage Limitations of Interest Rate Subsidy Program

The FY'86 funding for the I-Match program would total $136 million with $100 million raised from Eximbank's retained earnings and $36 million from fees. This $136 million would support $1.8 billion in export loans. When these ceilings are applied to the different lending rates which vary by country category, and shifts in interest rates are considered, a few large projects would quickly wipe out the amounts allotted. Should interest rates rise, the subsidy budget would be drawn down all the more quickly: should the rates fall, the total export volume supported would still be capped at $1.8 billion.

Political Concerns with Direct Subsidy

Eximbank has always had to justify its programs to the Congress, and a principal argument in favor of the direct lending program has been its identity as a non-subsidy program. Further, the prospects of an annual appropriation to fund the subsidy program would introduce a crippling element of uncertainty. Usually, subsidy appropriations are delayed until the end of the fiscal year: with Eximbank preliminary commitments typically taking six months or more to convert into loans, the bank's operations would effectively be in suspense for half of each working year.

Mixed Credits

The case for a strong U.S. mixed credits program has been aggressively advocated by the U.S. export sector in recent years and acted upon by the Congress. This Subcommittee in particular earned the praise of the export community for its decisive role in the development of the program. The mixed credits legislation enacted in 1983 provided the basis for an effective program, and this year the export community was confident that modifications would be introduced to place the program on a truly workable footing. The switch to an interest rate subsidy, however, would effectively rule out mixed credits as far as the Eximbank is concerned.

This means that foreign mixed credits activity would continue with impunity, safe in the knowledge that the United States government had withdrawn support from its exporters.

Conclusion

A strong U.S. export performance has never been more critical than now. The U.S. trade deficit is at record levels and increasing. The high U.S. dollar and intense foreign competition for weak foreign markets compound the difficulties of U.S. exporters in closing the trade gap.

The Eximbank's direct loan program is a proven, invaluable tool for helping U.S. exporters win business they would otherwise have lost due to the intervention of foreign governments in export markets. Moreover, the continued operation of this program provides the incentive for our trading partners to negotiate the eventual elimination of all forms of government export subsidies.

Accordingly, the Chamber recommends that the Eximbank's direct loan program be retained and further adapted to provide the basis for a strong U.S. mixed credits program. We would accept reductions in the program, however, as a means toward meeting FY'86 budget deficit reduction goals.

The proposed I-Match program raises too many questions regarding its ability to provide U.S. exporters with the same type of support now being provided by the direct loan program. These questions include the limitations on volume and types of transactions that would be supported, the negative political implications of a direct interest subsidy program and the negative implications of ending the U.S. mixed credits program. It might be tried on an experimental basis, but it should not be viewed as a satisfactory alternative to the direct loan program at this time.

These and other questions raised by members of the U.S. exporting and financial community must be answered before further consideration be given to the proposal.

A modern and vital Eximbank can help U.S. business compete on a market basis worldwide. In this way, the Bank benefits the entire U.S. economy, supporting jobs, adding to the GNP, and increasing the tax revenue base, not only of the federal government, but also of state and local governments.

A strong Eximbank can send the signal to our foreign competition that this nation fully recognizes the importance of international trade and the realities of the market place and is prepared to meet the challenge of world competition. We can put ourselves in a position to prove that, when it comes to trade, the United States means business.

PROCEDURES FOR BRINGING CASES TO BOARD FOR ACTION

Senator KASTEN. I want to ask you about your 95 percent. You said 95 percent of the decisions that come before the Board are approved.

Now, what kinds of steps happen before a decision comes before the Board? How many people are told that you already have your quota for telecommunications in this part of the world? How many people are told you already have a great many airplane deals over there, and are not likely to do any more airplane deals because of a quota?

Mr. DRAPER. Nobody is told either of those things, ever. We don't have any quotas. They are not turned away, other than if we are closed in a country based on the——

Senator KASTEN. How do you determine the amount to be closed in a country?

Mr. DRAPER. For example, the countries where we are closed are East Germany, Albania, Bulgaria, Czechoslovakia, Estonia, Latvia, Lithuania, North Korea, Vietnam, Outer Mongolia, Cuba, and the U.S.S.R. Those are places we don't want to finance. And you don't want us to, do you, Senator?

Senator KASTEN. No, I don't. That is not the question.

Mr. DRAPER. OK. That is one answer.

Senator KASTEN. Ninety-five percent of the people that come before the Board—those decisions that come before the Board—are okayed. My question is how many decisions are there that are turned down before they have the opportunity of coming before the Board? Is your answer to me zero, none, half, five, one last year?

Mr. DRAPER. If there is any doubt, they come before the Board.

Senator KASTEN. If there is any doubt, they come before the Board?

Mr. DRAPER. Yes.

Senator KASTEN. No decisions are turned down in any way except by coming before the Board?

COUNTRY CONDITION CRITERIA FOR REPAYMENT

Mr. DRAPER. We have to have a reasonable assurance of repayment.

Senator KASTEN. There we go again.

Mr. DRAPER. You understand that. So we are closed in some other countries I didn't name where we would have to have a reasonable assurance of repayment, such as the Sudan, Afghanistan, Bangladesh, Bolivia, Chad, Iran, Libya, Madagascar——

Senator KASTEN. We get another list of countries.

Mr. DRAPER. You don't want us to do business in any of those countries, do you, Senator?

STAFF DISCOURAGEMENT OF CASES

Senator KASTEN. Let me do this another way. Is the only way a decision for Eximbank financing, the only way that that choice can be made, can be turned down, by Board action?

Mr. DRAPER. Yes.

Senator KASTEN. Or is there another way you could turn it down by a midlevel administrator saying it isn't going to work?

Mr. DRAPER. The only way is by Board action.

Senator KASTEN. So every single decision that was made came all the way up and 95 percent——

Mr. DRAPER. Well, there is a loan committee that acts on cases under $1 million. That is just for practicality. They act on maybe 25 cases.

Senator KASTEN. My understanding is, and we can get into this in greater length, and I know Senator Deconcini wants to ask questions——

Senator DECONCINI. No; you are doing just fine, Mr. Chairman. Take as much time as you like. [Laughter.]

Mr. DRAPER. By the way, the loan committee also approves at least over 90 percent. I think it probably approaches 95 percent of those smaller cases.

CONTINUATION OF PRELIMINARY COMMITMENT PROCEDURE

Senator KASTEN. Frankly, we are struggling over what to do with the Eximbank. I believe both houses, the authorizing committees, the appropriating committees will reject your proposals. The only question now is what we are going to have in the direct loan program.

If it turns out to be roughly $2.8 billion, which would be a $1 billion cut, that is roughly I think where Congress is in its thinking. We are boxed in by the budget now. Nevertheless, if we reject your proposal and we do go on with a direct loan program at a given level, let's say for instance $2.8 billion, our concern is that you and your administration might try to limit the power of that money.

Specifically, our concern is that you may work to close the preliminary commitment window. I would like to ask you today whether or not we can have your assurance, assuming we go forward and fund a direct loan window of the Bank at a reduced level, that you will not close the preliminary commitment window, to at least reflect the minimum which would be available under the Budget Committee number or our number.

Can we have your assurance or do we have to pass legislation in order for you to continue to manage the Bank with the direct loan program continuing?

Mr. DRAPER. No; I will do whatever you tell me to do. I mean I am working for you.

Senator KASTEN. All right. You haven't done whatever we told you to do in the last couple of years.

Mr. DRAPER. You keep saying that. I don't buy it. I just don't buy it. I think you are way off. Tell me who is objecting to the way we are running the Bank.

Senator KASTEN. Every major exporter I have talked to in the last 6 months.

Mr. DRAPER. I just don't believe that. Would you give me some statements in writing? I have a lot of letters I will give to you to support my position. Give me some letters to support yours, please?

Senator **Kasten**. I will. We had a hearing 2½ years ago.

Mr. **Draper**. You are going way back. Everybody was worried 2½ years ago. They are very delighted with the way it has gone in the last 2½ years.

MIXED CREDITS

Senator **Kasten**. They are more concerned today than they were then.

I will just make one final point and then yield to Senator DeConcini.

You made the statement to Senator Inouye that you were working toward a mixed credits strategy. We have put a mandate in the law to both your agency and AID, to work toward competition with foreign mixed credits. Your response to that mandate in everyone's mind, although your question and answer with Senator Inouye was roughly on track, is that you have not been forthcoming in trying to aggressively develop mixed credit strategies.

It is interesting to us that we received, and I will read a couple parts of it, an internal memorandum from AID sent to you and others showing how you can squash the Congress' efforts in working toward mixed credits, and I quote: "There are four objectives, which I will now discuss. . . . 1. Terminate mixed credits by congressional action. This is the one Eximbank raised at the meeting and you asked us to work with them to be ready to deal with the new Congress when it comes back. It would eliminate the mixed credits language from existing legislation and would require executive branch actions to convince Congress that mixed credits are expensive and do not serve a developmental purpose."

The other alternative is to "design a mixed credits program with relatively limited resources. . . ."

It ends up with the final recommendation, you should meet with X, Y and Z "to discuss this further. If you agree with his approach . . ." what we are going to do is start working "with Exim to prepare the case against mixed credits."

How many mixed credits cases have come before the Eximbank in the last year or so?

Mr. **Draper**. Twenty-two in 1984.

Senator **Kasten**. Of those, how many have been successful?

Mr. **Draper**. Twenty-two have come before us. We have tried to help in one form or another in eight.

Senator **Kasten**. Of the 22, you helped in one form or another eight. Does that mean that you funded eight, and eight went on, and they were satisfactorily blended to the satisfaction of the exporting companies?

Mr. **Draper**. Well, in different forms. You know, if you want to I suppose fully satisfy anybody, it is very difficult to say.

Senator **Kasten**. I don't know if AID is working with Exim to prepare the case against mixed credits and work for alternative number one in this memo, which is to terminate mixed credits; or if you are trying to fund mixed credits.

You have 22 cases before you. Of those, you went forward with eight?

Mr. DRAPER. Forward but not all as mixed credits.

Senator KASTEN. How many went forward as a mixed credits?

Mr. DRAPER. Well, in the only two where AID had some funds available for those two countries, one was Botswana and the other was Egypt.

Senator KASTEN. Two. The other 20 were rejected?

Mr. DRAPER. No.

Senator KASTEN. They were approved under other circumstances?

Mr. DRAPER. Let me explain. We had six other cases which we countered by Eximbank alone without any AID help because there were no AID funds available and we felt that either the French or the Japanese, or somebody, were trying to just interfere in the marketplace with some aid.

Senator KASTEN. How do you make that decision?

Mr. DRAPER. We made a Board decision. We do a case-by-case analysis on whether or not there is an opportunity to help the American exporters, and whether it helps us in our negotiations with the Europeans.

One of those cases was for aircraft profilers in Indonesia. We loaned them $15 million at 6.5 percent and gave them 100 percent long-term financing.

Senator KASTEN. I don't want to go through the details of each individual one. Maybe we will just ask you to submit for the record the number of mixed credit applications that you have dealt with in the last year, the number of mixed credit applications that are before you now, and we will try to get a sense of it.

[The information follows:]

MIXED CREDITS

In calendar year 1984, Eximbank faced confirmed mixed credit competition in 22 cases. In 2 cases, Eximbank countered in conjunction with AID funds; in 6 other cases Eximbank countered alone by lowering its interest rate and lengthening terms. In the remaining 14 cases, Eximbank offered its standard financing packages.

In calendar year 1985 (through March), Eximbank has faced 5 confirmed mixed credit cases. In 2 of these, Eximbank has countered alone and in the other 3 has offered standard financing packages. One of the latter cases may be reconsidered due to recently received information on a confirmed, competing mixed credit.

(Details of cases on attached charts)

CONFIRMED MIXED CREDITS REPORTED — CY 1984

Updated: 3/19/85

I. Countered by AID and Eximbank

Country	Project	Export Value	Comment
Botswanna	18 diesel locomotives		Lost to Canada; Price and Fees
Egypt	Thermal power project		Buyer not yet decided. French and Canadian mixed credit.
		108 mil.	
II. Countered by Eximbank alone			
Indonesia	Aircraft Profilers	Exim offered 100% financing at 6.5% interest, lengthened term.	U.S. firm won; beat French mixed credit.
Cyprus	Communications	Exim offered 100% financing at 7.62% interest, lengthened term.	French first with mixed credit; U.S. second. Italians 3rd. Italians won.
Cyprus	Communications	100%, 10 yrs., 4.957%	French first w/mix. cr. Japanese undermatch. Undecided.
Malaysia	Gas Turbine Generators	Exim offered guarantee of 15-year bullet loan.	U.S. exporter won despite French & British mixed credit. Guarantee not needed.
Algeria	Satellite Ground Station	Exim lowered rate to 8%, lengthened term.	Japan offered tied aid equiv. to mixed credit. Buyer undecided, wants still better terms.
Indonesia	Jet Engine Testing Facility	Eximbank increased loan to 100%.	P.C. Cancelled. French won.
		63 mil.	
TOTAL CASES COUNTERED		**171 mil.**	

III. Other Cases of Confirmed "Mixed Credits" - Eximbank Offered Standard Financing Packages

A. U.S. Exporter(s) bidding with foreign partner backed by mixed credit

Malaysia:	Power Equipment		U.S. with Canada & Italy. Japan won.
Thailand:	Fertilizer Complex		U.S. with Japan & France. Undecided.
Pakistan:	Telephone Switching		U.S. with Canada. Undecided.
		205 mil.	

B. U.S. Exporter(s) competing against foreign protocol or "line of credit" which lets buyer country select project.

Indonesia:	Diesel Generator Sets		Dutch line of credit. Lost to France/UK.
Tunisia:	Water supply system for Phosphoric acid plant	41 mil.	French line of credit. Undecided.

C. Project Delayed

India: Coal Mining Equipment		P.C. cancelled. UK offered mixed credit.
India: Mining Equip. various		P.C. cancelled. UK offered mixed credit.
India: Mining Equip. various		P.C. cancelled. UK offered mixed credit.
	68 mil.	

D. Part of larger project already won by foreigners.

India: Aluminum Rod System		French mixed credit. Decision postponed.
Mexico: STEEL PLANT - oxygen plant		French mixed credit. French won.
	21 mil.	

E. Extreme Concessionality

India: Helicopters	100 mil.	UK 78% Grant. Undecided.

F. U.S. Equipment Superior - could win anyway.

Indonesia: Machine Tools		France & Japan mixed credits. Undecided.
India: Mining		UK 25% Grant. Undecided.
India: Mining		UK 25% Grant. Undecided.
	27 mil.	
TOTAL OF OTHER CONFIRMED M.C. CASES	462 mil.	
GRAND TOTAL CONFIRMED M.C. CASES	633 mil.	

CONFIRMED MIXED CREDITS REPORTED --- CY 1985 Updated: 4/18/85

I. Countered by AID and Eximbank

Country	Project	Export Value	Comment
None			

II. Countered by Eximbank alone

Country	Project	Export Value	Comment
Thailand	Boiler Components	Exim offered 100% financing at 8.85% blended interest, 12 yr. repayment term.	Undecided.
Brazil	Hospital Equip.	Exim offered 44.25% financing at 11.20% and 40.75% at 4.46% for blended int. rate of 9.44%; 10 yr. repayment on both tranches. Also offered an 85% private credit w/ Exim's g'tee and 15% private credit w/ Exim g'tee for local cost.	Undecided.
		55 mil.	
TOTAL CASES COUNTERED		55 mil.	

III. Other Cases of Confirmed "Mixed Credits" - Eximbank Offered Standard Financing Packages

A. U.S. Exporter(s) competing against foreign protocol or "line of credit" which lets buyer country select project.

Thailand: Turbine Generator		Swedish line of credit. Undecided.
India: Computer technology		French line of credit. Undecided.
Turkey: Bridge and toll roads		U.K. grant. Possible Japanese OECF loan (unconfirmed). Undecided.
TOTAL OF OTHER CONFIRMED M.C. CASES	377 mil.	
GRAND TOTAL CONFIRMED M.C. CASES	432 mil.	

EFFECT OF EXIM LOANS ON BUDGET

Senator KASTEN. I would like to now yield to Senator DeConcini.

Senator DECONCINI. Mr. Chairman, thank you very much.

Mr. Draper, you can kind of probably sense this committee. Although I am sure you and your members are convinced you are doing everything you can and doing a good job, and I don't pretend to be an expert at understanding the Eximbank at all, but the confidence level here is very low. It may not be all your fault. It may be the attitude of this administration towards exports, that the free market is going to handle everything.

You refer in your statement to the $3.4 billion reduction in the deficit over the next 3 years obtained by eliminating the direct loan program. Is it true that these direct credits are shown as expenditures in the Federal budget but are really loans which are repaid to the Exim and then paid back to the U.S. Treasury?

Mr. DRAPER. Right.

RESCHEDULED LOANS IN 1984

Senator DECONCINI. How many defaults have we as a government, or the Bank had, say in 1984, that were not paid back or had to be absorbed by the Federal Government? How much did it amount to? Not how many, just how much.

Mr. DRAPER. $267 million was rescheduled, and on top of that, that is the amount of principal, there is $116 million in interest, for a total of $383 million that was rescheduled in 1984.

Senator DECONCINI. When you say rescheduled, what is the experience in collecting that? When you say rescheduled, does that become a higher risk?

Mr. DRAPER. No; it just spreads out the payments over a longer period of time. It usually means that the foreign government has guaranteed it, or it is a foreign government risk, and we assume that they will pay it. A country isn't going bankrupt, but it will take a lot longer to repay.

Those reschedulings usually take place at something called the Paris Club, which is where the country goes and meets with its creditors and tries to get a reasonable repayment schedule so that it can pay its debts in the long run.

Senator DECONCINI. Any additional loss then to the Treasury is due to the fact that the money is not paid back and the subsidized interest rates that are involved in the loan are absorbed in the Treasury. That is where the loss would come.

Mr. DRAPER. In these cases we wouldn't lose money as long as it is repaid in full finally.

Senator DECONCINI. But you lose money just on the differential of the interest.

Mr. DRAPER. No; because the interest rate would go up at the time of rescheduling to our cost plus 50 basis points. That is just part of the way we do business.

Senator DECONCINI. So if these reschedulings are paid off, then there is no loss?

Mr. DRAPER. Right.

BUDGET DEFICIT

Senator DECONCINI. Now, given this situation, if you have a program that works well, and it does not really cost the Government any money, except in the differential on the original loan on interest, why fix it when it isn't broken? You say you are doing that because of the deficit, but we know up here what that deficit really is and what it really isn't. They know down at the White House. And we all like to play those games. I am as guilty as anybody.

But when you really come down to it, you are not causing a deficit here, assuming these are repaid, and you are telling me that almost all of them are, so the only loss is whatever the differential is in the interest. Why fix something if it is working? Is it just to have a public image that that deficit is down when in fact it really is not down?

Mr. DRAPER. I think you can tear that budget apart and figure out what it is made up of. As you say, you understand it, the White House understands it. But I must say, everybody seems to understand the basic number is $200 billion and that somehow has to come down to $100 billion at the end of 2 years, or whatever.

If this helps do that, it seems to me, as a person who invests money of my own and is aware of paying taxes and so on, then any attempt to make that budget more realistic is a good move. That is why I was saying maybe before you came in that I think if you just made the accounting change to get us off, it would be a sensible move.

So you and I are saying exactly the same thing. I said almost identically the same thing before. You can't just remove the direct credit program without replacing it with something that is going to work for the American exporter. It gives him the full support he has been getting from us up to now under the direct credit program. That is where we are trying to sort of solve both problems.

It would be a big problem if we just remove the direct credit. The chairman seems to think we are trying to do that. We are not trying to just remove the direct credit without an adequate substitute.

SUBSIDY IN EXIM LENDING

Senator DECONCINI. You didn't really answer my question. Well, maybe you did. Maybe what you are saying is the image out there is that you are reducing the deficit, when in fact that is not the case because there is no loss. The only loss is the differential in interest.

Mr. DRAPER. But get it down to where it really is. There is a $100 million subsidy. That ought to be scored up.

Senator DECONCINI. Right.

Mr. DRAPER. That would count against the deficit. As that flowed out——

Senator DECONCINI. But that is all we are talking about.

Mr. **Draper**. Yes; that is all we are talking about.

Senator **DeConcini**. That is really all the loss the Federal Government is talking about under the existing way it works, right?

Mr. **Draper**. Sure. I don't disagree with that.

Senator **DeConcini**. You don't disagree with that.

Mr. **Draper**. No.

COST OF I-MATCH PROGRAM

Senator **DeConcini**. The program that you are submitting here would cost more or the same amount as far as the subsidy is concerned?

Mr. **Draper**. I am sorry; I missed that.

Senator **DeConcini**. Would the I-MATCH program cost more or less than what the subsidy is now?

Mr. **Draper**. The actual cost, as you might look at it in a straight accounting way, might be more expensive. It would probably be more expensive because we have to pay a marginal difference. It is a small difference in relation to the total numbers that are handled.

Senator **DeConcini**. What do you think that difference is? Just an estimation.

Mr. **Draper**. $40 million.

Senator **DeConcini**. So we are taking a program then, Mr. Draper, that now the only real loss of borrowing, the default on the principal, the only real loss to the Government is the interest differential that the Treasury picks up or the Eximbank picks up? We are trading that for a system that adds $40 million more real loss to the Government?

Mr. **Draper**. Yes; except that as a taxpayer——

Senator **DeConcini**. Is that a correct observation, before you explain it away, which you are very good at, by the way. [Laughter.]

Is it correct, that there is going to be $40 million—I don't want to say loss because it is an investment—expended in going to the I-MATCH?

Mr. **Draper**. I think we estimated that it would cost $42 million to, in effect, privatize the funding of the Eximbank direct credit program. And by privatizing it, I think we gain something. We also gain something by just having the Board focus on the subsidy.

Senator **DeConcini**. That is worth $41 million, $42 million?

Mr. **Draper**. And the Congress focuses on the subsidy. They may decide that is not a very large subsidy for all the good we are doing and want to increase it the following year, or whatever.

Senator **DeConcini**. Mr. Draper, I hate to tell you—excuse me for interrupting—that is an expensive lesson on focusing, particularly when you are talking about real deficits, if you talk about the real deficit here. But you are not talking about a loss to the Government of $3.4 billion. You admitted that in your own testimony. You are talking about the only real expenditure to the Government being the differential on the interest.

Now, you are saying that under your own plan it is going to cost another $41 million, $42 million. But that is worth it so the board knows and Congress knows exactly what the subsidy is. Why don't we write into the law under the $3.4 billion that the subsidy is such and such, if that is not there? Wouldn't that solve the same problem and save $42 million?

Mr. **DRAPER**. Well, it might. That might.

Senator **DECONCINI**. OK, good.

Mr. **DRAPER**. But that is——

Senator **DECONCINI**. That is all I need.

NEED TO FOCUS ON SUBSIDY

Mr. **DRAPER**. There is this problem of not focusing on the subsidy. It is like running a business without a P&L to answer to. It can be pretty sloppy and you can excuse a lot of activity because you just have the attitude that, well, you have to do the job.

There is one mixed credit that we didn't do that I should tell you about. In Thailand there was a request for a fertilizer plant that was going to cost $100 million. The French and the Japanese had a consortium all mixed up bidding on this. AID-type funding was being mixed into it. So the actual cost in present value of the loans that we would have had to match on a mixed credit basis would have cost, on present value basis, 75 or 80 percent of the total cost of the plant. We could almost have given Thailand a fertilizer plant.

Now, the American taxpayer should focus on that. I don't want to do that. I voted against providing concessional financing on that case, as did the rest of the Board members.

Senator **DECONCINI**. We are not suggesting that you should buy that, by anything I said, Mr. Draper.

Mr. **DRAPER**. No; what I am trying to say is it is important to focus on what we are doing.

Senator **DECONCINI**. That is what I am trying to do.

Mr. **DRAPER**. Another board might say that the French are doing it, and there is a lot of aid in it, let's match that aid. Pretty soon you are an aid program. I don't think Eximbank ought to be an aid program.

Senator **DECONCINI**. Mr. Draper, no one is suggesting that. That is exactly what I am trying to do: focus in on how much money this costs the Federal Government. What you have said very clearly is that under your proposal, it is going to cost more actual dollars spent by the Federal Government.

Let me finish. Maybe it is worth it. Maybe all of these are good reasons and in the long run it is. But the fact is that it is going to cost more. That is all I want to clarify. Then I will make the judgment whether I agree with you in the long run that if is worth it and the privatization and the good arguments you make.

PEFCO

Let me ask one more question. In your statement you referred to the Private Export Funding Corporation as an organization owned by 55 banks and seven industrial corporations, which was created for the purpose of filling the fixed-rate financing voice that would be created by the discontinuation of Eximbank direct loan credits.

I wish you would refresh my memory regarding what PEFCO is, and why it was created.

Mr. DRAPER. It was created because banks liked to have variable rate loans. They liked the floating-rate loans and not having it on a fixed-interest rate basis for a long period of time. They like to get their money out in 2 or 3 years and have it turn over.

So PEFCO was organized because we did want to be able to use a guarantee only where there was no subsidy at all involved——

Senator DECONCINI. Did these banks put in money to PEFCO then?

Mr. DRAPER. Yes; they did. They invested the capital and got it started.

Senator DECONCINI. That is the pool of money used then?

Mr. DRAPER. That is the pool. That is just the capital base. Then they go out into the public market and borrow $100 million at a time, let's say. That money is loaned to them, because the loans that they in turn make to foreign entities, at market rates by the way, have our guarantee on them that they will be repaid.

Those are put into a trust. That trust secures the loans that are made to PEFCO by these private investors that are willing to invest their money for, say, 10 years at a fixed interest rate.

Senator DECONCINI. Then PEFCO loans the money to the government that is going to buy?

Mr. DRAPER. That is exactly right.

Senator DECONCINI. The Eximbank——

Mr. DRAPER.—guarantees that that government will repay.

Senator DECONCINI. Guarantees PEFCO that the government will repay?

Mr. DRAPER. Or that private buyer in a foreign country will repay. If they don't pay in 10 days, we pay the claim.

Senator DECONCINI. Now, if that became itemized as the guarantees that you would have to make, we would be back in the same position we are in now with the deficit, would we not? If the guarantees you make to PEFCO were included in the deficit, we would have the same situation we have now as far as deficit figures?

Mr. DRAPER. Oh, sure. But it is a guarantee——

Senator DECONCINI. I understand.

Mr. DRAPER. What we are proposing is a fairly simple thing. It really is not that complicated. We are just proposing that the funding not be done by the Treasury, but that the funding be done by a private entity, and that we guarantee that private entity.

Senator DECONCINI. Right. And maybe you can enlighten this Senator, what makes this guarantee different than other guarantees that don't show up as a part of the deficit?

Mr. DRAPER. There is no difference.

Senator DECONCINI. There is no difference. So any guarantee where the Government has a liability out but doesn't actually have to put up the money——

Mr. DRAPER. That is it. It is the same thing.

Senator DECONCINI. It is not on the deficit, but if there is a default, they are bound to pay it, right?

Mr. DRAPER. That is right. The only difference between this program, what we call I-MATCH, and what we have been doing in the past with PEFCO is we are asking PEFCO to make the loan to that foreign entity at some price below market. And they would lose money, of course, in their private organization, so we would not ask that. We ask them to make it at below market. Then we repay them the differential. As those payments come due, they would have to come due at a higher rate than what that foreign buyer is paying.

Senator DECONCINI. Mr. Draper, if you get your program, I hope you and the members of the Bank board feel it is worth $42 million. I am going to look carefully at your statement again and try to do that, because I think you want to do a good job. But boy, I have a hard time having a representative of this administration say that this new concept is worth $42 million when we are talking about the deficits. Forty-two million dollars is not much on a $200 billion deficit, but it doesn't make sense to me.

Thank you, Mr. Chairman.

Senator KASTEN. Thank you Senator.

Do you have other questions, Senator Inouye?

Senator INOUYE. I would like to submit them.

AID OPPOSITION TO MIXED CREDITS

Senator KASTEN. I have some questions I would like to submit for the record, but I just want to finish the point I was on before.

The memo I was reading from is dated September 6, 1984. I simply want to ask you if you or members of your administration are working with AID in order to prepare the case against mixed credits.

PRELIMINARY COMMITMENT ANSWER

Mr. DRAPER. Before I answer that, I would like to answer directly something you asked me before: Would we continue on with our preliminary commitments system the way it is now. My answer to you was we will do whatever you tell us.

But the fact is, regardless of that, we would of course continue our system right up until the date that the system changes. But even then, the system will stay the same. As I said in the testimony, our preliminary commitments will continue to be made as they have been so that a customer can count on getting that financing, whether it be funded through the private sector and guaranteed by us or directly by us. Either way we will continue the same process that we have been making available to the exporters.

Senator KASTEN. Thank you for that clarification.

EXIM-AID MIXED CREDITS

Mr. DRAPER. Now, with regard to the AID program, that we and AID have been trying to do, it has been limited primarily because AID is restricted in the amount of money that it has to put into developmental projects around the world. So it really doesn't have the kind of funding that we need in many of the countries where we need it in order to be competitive.

Senator KASTEN. I understand the limitations of money. Mr. McPherson will be before us soon. But that isn't what I asked you. I asked you, are you or members of your staff working with the Agency for International Development to try to prepare the case against the use of mixed credits? I am taking a quote from this.

Mr. DRAPER. That must be a very old memorandum.

Senator KASTEN. The memorandum is dated September 6, 1984.

Mr. DRAPER. But not from me.

Senator KASTEN. Forget the memorandum.

Mr. DRAPER. Who is it from?

Senator KASTEN. From AID. It is an AID memorandum. It is evidently a summary of meetings you have had.

Mr. DRAPER. We have never been sent that memorandum. I have seen it.

Senator KASTEN. All right, forget about the memorandum. Are you or members of your staff working with the AID to prepare the case against the use of mixed credits?

Mr. DRAPER. I don't think we are. We are not in the process of working against any mixed credit program. I think what we have done is——

Senator KASTEN. Well, that is fine.

Mr. DRAPER. Eximbank has tried to respond unilaterally to some of these mixed credit cases without really the ability to use AID money, by meeting, as I say, 8 out of 22 that we felt were particularly egregious in the last year.

But I would say we are not funded for it. You haven't given us any special funds to do that, and you haven't given any special funds to AID to do that. So we have done the best we can with what we have. We are using our best judgment.

Senator KASTEN. I am looking at $3.8 billion that has been appropriated that has not been used. One of the cases that is made, which you made earlier today, is that you took 95 percent of those that come before the Board, maybe a couple of those—20 out of 22, the 20 that were rejected and two that weren't—fell into that 95 percent; maybe they were rejected, in other words. But we will get that information. We asked for that information earlier.

Mr. DRAPER. Yes.

COMPETITIVE MANDATE

Senator KASTEN. In order to try to explain where Congress wants you and AID to go, we changed the law last year. I just want to read this.

"It is the policy of the United States to foster expansion of exports of manufactured goods, agricultural products," et cetera. "To meet this objective in all of its programs, the Export-Import Bank is directed in the exercise of its functions to provide guarantees, insurance, and extensions of credit at rates and on terms and other conditions which are fully competitive with the Government-supported rates and terms and other conditions available for the financing of exports of goods and services from the principal countries whose exporters compete with United States exporters."

Now that is the law. You correctly talk about the fact that over here in old law there is a mention that loans so far as possible be consistent with the purposes of that subsection and offer reasonable assurance of repayment.

Mr. Draper. Yes; that is an important point.

Senator Kasten. I know it is an important point. However, the first point, particularly with reference to what Congress did in 1984, the frustration is clear. I don't think you can put the committee down as undivided in terms of your proposal today. I think it seems to us that you continue to emphasize this old law and not recognize, even in the case you described to Senator DeConcini, that your job is to meet and compete.

But we are going to have other hearings. Senator Inouye has questions to submit for the record. I have a number of questions that I would like to submit for the record. I hope that we will have a chance to give you an opportunity to respond to some of the problems that have been raised more directly.

I think as a result of some of the things that have been requested, we will be able to look particularly at the mixed credits issue. I am going to ask Mr. McPherson in detail about the mixed credits issue because it is something all of us have been interested in.

You may be familiar with The Los Angeles Times article—I don't know if you saw this—about the tremendous growth in mixed credits. "Those on both sides of the issue agree the trade war waged on mixed credits has taken a toll on U.S. businesses and probably cost America thousands of jobs." We are just not competing right now.

Mr. Draper. We certainly agree we want to do everything we can. I just want you to be sure to clarify something that I didn't quite understand what you said. You are not saying that our being fully competitive means that we should relax our credit standards?

Senator Kasten. I don't know. I would have to look at the individual case.

Mr. Draper. You better rewrite the law if you say that. We are not interpreting it that way. I don't think we should.

Senator Kasten. What we tried to do in 1984 was rewrite the law. What we are trying to do is be competitive.

Mr. Draper. You don't want to turn this into an aid organization, though, do you?

Senator KASTEN. We don't.

Mr. DRAPER. I want to make sure of that. Maggie Thatcher gave a steel mill to Mexico. Did you want us to match that? She did. It was pure and simple. They gave it to them with very low credit, lost money. The present value of it was virtually a gift.

Senator KASTEN. I would like to ask about that also. Maybe we would have wanted to match that. I am not sure. I just don't know the details.

Mr. DRAPER. That is the only kind of case we are really not taking on. If you want us to do that kind of case, then I think you better change the law.

Senator KASTEN. We will do it. But anyway, we appreciate your testimony and we will revisit this subject, particularly in terms of the groups that are using the Eximbank, in a further hearing, or, if not in a further hearing, then meetings and conferences.

SUBMITTED QUESTIONS

There are questions that will be submitted for the record. Hopefully you can get back to us within a couple weeks with the answers to those questions.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR KASTEN

SENATOR KASTEN: Would you agree with the statement that the trade war waged with mixed credits has taken a toll on U.S. businesses, and probably cost Americans thousands of jobs because we have not answered the majority of those mixed credit-type arrangements?

MR. DRAPER: I believe that the U.S. approach to the mixed credit war has had a fairly neutral impact on U.S. employment levels over the last few years and is the only approach which has a chance of saving thousands of jobs over the long term. For example, while the U.S. responded with below-Arrangement terms on only 8 of 22 mixed credit situations in 1984, the fact that the U.S. wins only about one-fourth of cases where U.S. financing is equal (the rest are split fairly evenly between cases lost on price/quality grounds and projectes deferred by the foreign buyer) means that the U.S. mixed credit appropach can be associated with only three of four lost cases in 1984 (i.e., 25% X 14 cases where mixed credits not offered = 3.5). However, the U.S. has won two of the eight cases, and there are probably at least one or two more cases where U.S. efforts dissuaded the use of mixed credit support.

Irrespective of the exact number of cases won or lost in 1984, only an approach which minimizes the cost of eliminating mixed credit competititon can be of benefit to the U.S. economy in the long run. Given that the typical mixed credit competition involves virtually giving the exports away, an undisciplined long-term U.S. strategy could probably crowd out enough private investment to more than offset any employment supported by the exports.

SENATOR KASTEN: What will it cost the government - in terms of subsidy costs and budgetary impact - to adopt an interest subsidy program instead of a direct lending program?

MR. DRAPER: On a present value basis, the I-MATCH program would cost about $42 million more per $1.8 billion of I-MATCH guarantees, than a $1.8 billion direct loan program. Thus, the subsidy costs are only slightly higher than the direct loan program. Over time, the budgetary impact of I-MATCH may be slightly higher than the budgetary impact of a direct lending program, because these costs are slightly higher.

SENATOR KASTEN: You state that by using I-MATCH we can reduce the budget deficit by $3.4 billion over the next three years. What will be the budget impact of I-MATCH eight, nine, or ten years from now?

Isn't it economically unsound and short-sighted to look only at the next few years?

MR. DRAPER: I-MATCH will be saving $3.4 billion over the next three years when compared against direct lending at current service levels. Clearly, direct lending would be repaid over the term of the loans, with those repayments offsetting the budget impact of diret loan disbursements. The net loss of a loan over an eight-to ten-year timeframe would ultimately be the interest differential between the interest rate on the loan and the interest rate on Exim's borrowings. Similarly, with an I-MATCH case, the net loss over that same timeframe would be the equivalent to the total subsidy payments, which also reflect a similar interest differential.

The I-MATCH program is not economically unsound and shortsighted. It is a form of export support which causes minimal budget impact. We have to begin sometime to address the budget deficit and to account for this program in a proper manner. Now is the time to begin.

SENATOR KASTEN: If the "costs" of an interest subsidy program are greater in terms of cost of raising funds or long run budget consequences, why should we adopt it?

MR. DRAPER: First, the I-MATCH program would result in an immediate reduction in outlays as compared to the direct lending program. Many economists believe that the perceived size of the federal deficit has led to high interest rates. Therefore, any program which immediately reduces the deficit will help reduce interest rates.

Second, we don't believe Exim loans belong on-budget. I-MATCH will remove the programs' operations from the deficit/surplus calculation. This will more properly reflect the actual activities of our programs. A loan disbursement is not an expenditure, since it will be repaid.

Third, the I-MATCH program will clearly identify the subsidy element inherent in our export support. Consequently, it leads to better decision-making regarding this program.

SENATOR KASTEN: You admit that not much, if anything, will be done to counter mixed credits. How can you take that cavalier a position, in the light of specific, recently enacted legislation directing you to establish a mixed credit program?

MR. DRAPER: We certainly view the mixed credit program as a very serious problem that must be dealt with through negotiations with the other OECD exporting countries. At present, mixed credits for commercial purposes are being initiated by a relatively few number of countries, with other OECD countries matching predatory mixed credit offers on a defensive basis. This increased matching by other countries has only increased the total volume of mixed credit offers, and we do not believe that wholesale matching by Eximbank of foreign mixed credit offers, a very costly approach, would result in a material improvement in the situation. Under the mixed credit legislation, Eximbank has established a mixed credit program consisting of the following:

1. Together with other U.S. Government agencies, escalating and intensifying the negotiations in the OECD to curb the use of mixed credits for predatory purposes.

2. Consulting with and cooperating with the Agency for International Development (AID) in countering predatory mixed credits where AID funds are available for the concessional financing protion of mixed credits.

3. Where AID financing is not available for this purpose, using Eximbank funds to selectively counter foreign predatory mixed credit offers in those cases where we believe that such an action will have a positive effect on our ongoing OECD negotiations.

SENATOR KASTEN: Will there be any predetermined limit on the amount of subsidy a lender can obtain in a specific case?

Will there be a cap no matter what the lender's cost of money may be?

Will the lender be required to take any risks in the transaction or will it obtain a full guarantee against default?

If the latter, what is the lender doing for the government?

It gets full interest protection and takes no risk. Isn't this an excessive price to pay the private sector for a few years budget relief?

MR. DRAPER: There will be no predetermined limit on the amount of the subsidy on a given case, however, Exim will not buy down rates to levels below the Arrangement rate for the category and term of the transaction.

The lender will not be required to take any risk in the transaction; they will have the full faith and credit guarantee of the U.S. government.

The I-MATCH program moves the lending from the government to the private sector. We do not look at the I-MATCH program as a few years budget relief but as a program which acts to reduce the deficit thus helping to reduce interest rates, and which moves export financing from the government to the private sector where it more properly belongs.

SENATOR KASTEN: If PEFCO is the only likely lender, is it appropriate for the government to devise a program designed to benefit only one financial institution?

Give us a detailed example of how PEFCO would price a specific transaction under I-MATCH?

How much money would it cost the U.S. to fund that transaction through PEFCO than by lending directly?

If PEFCO is the only likely lender, how will Eximbank be able to satisfy itself that it is getting the lowest possible market price?

MR. DRAPER: THE I-MATCH program is open to call eligible financial institutions, not just PEFCO, and we hope that many different financial institutions do use the program.

PEFCO's price is directly related to their expected cost of funds. To the rate that PEFCO expects to pay for its funds in the financial market, PEFCO adds an increment, generally about 15 basis points for its issuing costs, adds any costs associated with the "warehousing" of funds until they are needed for disbursement (a typcal cost might be 40 - 60 basis points) and adds about 35 basis points to cover PEFCO's administrative costs, overhead, and profit. The total PEFCO price usually is about 130 basis points over a comparable U.S. Treasury issue.

We believe that other lenders will bid on many transactions, but if PEFCO is the only lender, we can satisfy ourselves that the price is reasonable by examining the price in relation to existing financial market conditions and PEFCO's warehousing and other risks in the transaction.

SENATOR KASTEN: What volume of exports will the proposed interest subsidy program support?

MR. DRAPER: We estimate that the proposed I-MATCH program for FY 1986 will support $3 billion in U.S. exports. In addition, we estimate that our proposed insurance and guarantee programs, which do not contain interest rate subsidies, will support another $11 billion, for a total of $14 billion of U.S. exports that could be supported by the total proposed FY 1986 program

SENATOR KASTEN: Is it adequate to meet the estimated needs?

MR. DRAPER: We believe that it is.

SENATOR KASTEN: On what basis do you conclude it is in light of likely increase of exports such as aircraft and possible nuclear power?

MR. DRAPER: On the basis that we used only apporximately $1.5 billion of our direct credit authority in FY 1984 for a total export value of $2.1 billion, and we used only about $7.1 billion of guarantee and insurance authority for an export value of $8.3 billion. All told, this was a total export volume of about $10.4 billion supported in 1984 compared to the $14 billion export value that could be supported in FY 1986. With the strength of the dollar remaining high it is difficult to foresee total demand in 1986 more than 40% higher than in 1984. Since official OECD rates for aircraft and most nuclear plant projects are now so close to market rates, we believe that any major increase in demand can be supported under our loan guarnatee program rather than under our proposed I-MATCH program.

SENATOR KASTEN: You state that under I-MATCH Exim will not go to the Treasury. However, from the point of view of demand for money in the market place, the private lender will go to the market and with a full government guarantee.

Won't this have the same "crowding-out" effect in the market and have the same upward pressure on interest rates, with the only difference being it will cost the taxpayer more than if Exim did go to Treasury?

MR. DRAPER: I-MATCH as compared to direct credit authority will not lessen the amount of credit allocated to export financing; however, it moves the credit from the government to the private sector. A favorable effect on interest rates should occur since I-MATCH reduces the reported Federal budget deficit which many economists believe is a significant factor in keeping interest rates high.

SENATOR KASTEN: I understand that I-MATCH would be available only in cases where the lender provides a fixed rate of interest.

What lenders today are willing to provide fixed rates on long-term export credits?

Will commercial banks participate in this program?

Since they are a usual source of fixed-rate money, are they a likely source of funds?

If not, why? Is it because of the nature of Eximbank's guarantee?

I understand the the restricted assignability of Eximbank's guarantee renders this paper more difficult to market and, therefore, more expensive. It that true?

MR. DRAPER: Outside of the public bond market, long-term fixed rate funds in the United States typically are generated through private placements or note sales to institutional investors, such as insurance companies or pension funds. Both investment banks and money-center commercial banks are active in making such placements or (in the case of the commercial banks) making such loans directly and funding themselves through private placements or variations thereon, such as interest-rate swaps. These financial intermediaries are likely to participate in the I-MATCH program, with the extent of their participation influenced by the mechanics of a given transaction (its size, number and regularity of drawdowns, interest-rate commitment period) and the degree to which Eximbank's guarantee is assignable. The Eximbank guarantee under the I-MATCH program will not carry unlimited assignability rights, since any price benefit which could be derived from that change would likely be more than offset by its adverse effect on Treasury debt management procedures (i.e., Eximbank-guaranteed paper which is fully transferable would compete with Treasury issues in the market). However, the Eximbank guarantee can be assigned to a trust or other "pooling" entity, which should facilitate I-MATCH participation by both commercial banks and institutional investors and lower the cost of funding under the program.

SENATOR KASTEN: Is Exim planning to operate I-MATCH on a competitive bidding process. If yes, is this a practical procedure?

How can you conduct competitive bidding on an efficient and timely basis on each and every transaction?

Wo else will bid other than PEFCO?

MR. DRAPER: Exim is planning to operate the long-term I-MATCH program on a competitive bid basis, but not the medium-term

I-MATCH. We believe that it is a practical procedure for the long-term I-MATCH since it deals with export sales of $10 million or more generally payable over 7-10 years. Competitive bidding on these large transactions should ensure the lowest cost to the government.

Competitive bidding is not a complicated procedure. We will establish a general framework for the competitive bidding process through a master guarantee agreement with all interested and eligible financial institutions. Within this framework, the bidding process should be quite efficient.

We hope that many financial institutions find the I-MATCH program attractive and will bid.

SENATOR KASTEN: Although the foreign importer presumably would see the export credit arrangement minimum rates, what other costs would the exporter or importer have to bear?

For example, prepayment or cancellation premiums, withholding taxes, other?

MR. DRAPER: It is our approach to continue to design our programs so that they are competitive in costs with those of other major export credit agencies, including such items as fees and premiums.

Questions Submitted by Senator Inouye

SENATOR INOUYE: Mr. Draper, the United States experienced the worst trade deficit in its history in 1984. We lost $128 billion in our trade with foreign countries.

In view of this horrendous deficit, can you explain what possible justification the Administration has for reducing funding of the Export-Import Bank?

The Administration has proposed the abrupt termination of the Export-Import Bank direct loan program--they just want to end it completely and abruptly.

Would it not be better to phase it out over time?

Will your approach not further disrupt U.S. trade financing and further increase the trade deficit?

MR. DRAPER: In fact, the Administration is not proposing to reduce the scope or terminate Eximbank's competitive financing support for U.S. exports. As you point out, the trade deficit makes competitive export financing particularly critical for the United States and its exporters at this time. This is why the Administration has proposed that Exim continue to provide exactly the same type of competitive financing for U.S. goods and services exports as it has in the past. In order to also address the budget deficit program, however, this financing will be achieved through a different mechanism: the I-MATCH program. This program will permit private lenders to fund the export loans with Eximbank providing only the subsidy needed (rather than the entire loan principal amount), have an immediate favorable impact on the budget deficit, and guarantee U.S. exporters continued competitive support from Eximbank.

SENATOR INOUYE: Let's assume, for a moment, that today's meeting is actually being held next year at this time.

Let's also assume the Administration's fiscal year 1986 request for the Export-Import Bank was approved without change.

Now, on page three of your prepared statement, you say, "We are actively looking for creditworthy projects to support in all of our programs. At the end of February Eximbank has nearly $5 billion in preliminary commitments and over $2 billion in financial guarantee offers outstanding."

How would you fulfill the $5 billion in preliminary commitments? Next year, at this time, there would be no direct loan program. The demand for direct loan export financing could not be met. It that not true?

I must tell you, Mr. Draper, that I take strong exception to your statement, also on page 3, in which you way "We are standing squarely behind the American exporters in these difficult times."

MR. DRAPER: We believe that the proposed I-MATCH program, which is a direct substitute for our Direct Credit program and would fulfill our obligations under Preliminary Commitments for Direct Credits, will meet the 1986 demand for subsidized export loans to counter foreign subsidized export credits. The $1.8 billion in subsidized loan capacity for 1986 should be adequate to handle the requests for loans that might result from the $5 billion in offers outstanding. Preliminary commitments are made in support of U.S. exporters when they are bidding for foreign contracts in competititon with foreign competitors. In the highly competitive international trade environment, heightened by the strong U.S. dollar, our exporters are only able to obtain orders for a fraction of the business on which they bid. Correspondingly, only a fraction of the $5 billion in Eximbank offers would be converted to actual loans.

SENATOR INOUYE: You have mentioned the interest rate agreement of the OECD. Interest rates, however, are but one variable in export financing.

Has there also been an OECD agreement on mixed-credit financing?

How does the U.S. compete in this area?

How does the strength of the dollar effect our ability to compete?

Has the interest rate agreement relegated the United States to a permanently uncompetitive position?

MR. DRAPER: There is an OECD agreement on mixed credits that requires mixed credits to have a minimum grant element of 20% and prohibits mixed credits for nuclear power projects. We are negotiating in the OEDC to raise the minimum grant element to 50%, thereby making mixed credits too expensive to use for predatory purposes. I have described in a previous answer how Eximbank responds to mixed credit competititon.

The present strength of the U.S. dollar certainly affects the ability of our exporters to be price competitive.

The OECD interest rate agreement helps the U.S. competitive position in that it establishes minimum interest rates and maximum repayment terms that the principal OECD exporting countries can offer. Eximbank's rates and terms are set at the most favorable levels permitted under this agreement.

SENATOR INOUYE: Mr. Draper, I am pleased to learn of your efforts to expand Eximbank financing of exports by small businesses.

What do you mean you say "In FY 1984 Eximbank authorized $1.8 billion in support for exports by small businesses"? By "authorized" do you mean Exim actually provided $1.8 billion in export financing, or do you mean you promised to provide such support?

Was this "authorized" support in the form of direct loans or guarantees?

Do you think small business exports would have been further expanded had you made direct loan financing more readily available?

MR. DRAPER: By authorized, I mean that the Bank committed during FY 1984 to provide such support, although in many cases the exports also went forward in FY 1984.

The support was in the form of loans, guarantees and insurance. Of the total of $1,804 million, $1,660 million was guarantee and insurance support and $144 million was support under the direct loan program.

Eximbank Direct Loan support is readily available for small business exports. In fact, the Bank has a special Small Business Credit Program which targets small business exports for direct credit support.

QUESTIONS SUBMITTED BY SENATOR LEAHY

SENATOR LEAHY: Last week the Senate Budget Committee approved a $1.25 billion direct loan program for the Export-Import Bank.

How would you compare the ability of that program to support the U.S. export community, with your new "I-MATCH" proposal?

MR. DRAPER: A direct loan program would be equally competitive compared to the proposed I-MATCH program. However, if the Bank's

FY 1986 direct loan authorization level were set at $1.25 billion, this would reduce our ability to support U.S. exporters by $0.55 billion compared to the $1.8 billion I-MATCH proposal.

SENATOR LEAHY: I am very concerned about the impact of adverse actions by foreign governments on U.S. exports.

What are the Ex-Im Bank and the Administration doing to help counter mixed-credit schemes by foreign countries, particularly Western European countries and Japan?

I understand that one proposal considered and rejected last week by the Senate Budget Committee was a $1 billion "war chest" to fight foreign predatory competition. This "war chest" would have been used to finance mixed-credit schemes of our own, and other actions to counter foreign predatory financing.

Do you believe that the Europeans and Japanese are increasing their predatory financing practices, and, if so, what can be done about it?

MR. DRAPER: I have described our response to the mixed credit problem in previous answers. Regarding the volume of mixed credits, we believe that the volume of mixed credit offers has been increasing, but that the volume of mixed credits actually authorized has decreased in the past few years. This is the result of more countries offering mixed credits to counter offers from countries like France and Japan, but at a lower volume of available new business.

SENATOR LEAHY: It has been suggested to me that your new I-MATCH program is being substituted for the direct loan program as a first step towards eliminating altogether these kinds of U.S. Government subsidies.

It this true?

MR. DRAPER: We believe that the fact that the Administration is proposing the I-MATCH program recognizes that a matching interest rate subsidy program is necessary as long as other countries continue to provide such subsidies.

SENATOR LEAHY: At a time when the Administration is proposing to spend billions on foreign military aid, why are you eliminating the direct loan program which provides a relatively small amount of low interest money to developing countries to buy peaceful products from U.S. companies?

MR. DRAPER: The proposed I-MATCH program would continue to provide low interest rate money to developing countries to buy peaceful products from U.S. companies, where necessary to match such subsidies from competing countries.

MATERIAL SUBMITTED SUBSEQUENT TO HEARING

(CLERK'S NOTE: The following letter and attachment were submitted subsequent to the hearing:)

National Association of Manufacturers

HOWARD LEWIS III
Assistant Vice President
International Economic Affairs Department

March 21, 1985

The Honorable Robert W. Kasten
Chairman, Subcommittee on Foreign Operations
Appropriations Committee
United States Senate
Washington, D.C. 20510

Dear Senator Kasten:

I attended your subcommittee hearings yesterday on Eximbank in which Mr. Draper defended his I-match proposal as a viable substitute for Exim's direct loan program. Several times during the proceedings, Mr. Draper stated that large companies weren't complaining about Exim's lack of aggressiveness. While I'm sure you know this isn't the case, you nevertheless might be interested in the enclosed NAM survey on Exim (see page 1 of July 27, 1984 Trade & Industry) which provides some fairly specific ammunition to counter such claims.

For example, in the survey we asked companies whether Exim was carrying out its competitiveness mandate "aggressively," "adequately," "inadequately," or "not at all." Out of 43 respondents, 10% felt the Bank was not doing its part "at all" and 53% felt the job was being done "inadequately." Only 20% responded that the Bank was doing an "adequate" job and none felt that it was being "aggressive" in supporting American exporters.

The perception that the Bank is not very supportive of U.S. exporters has some very real consequences as illustrated in another question from our survey. Over the past year and a half, 68% of the companies responding to the survey did not take business to Exim because they felt financing was either not available or uncompetitive. Fifty-eight percent of these firms rated this business as either "very important" or "important." And 18 companies alone were able to identify over $1 billion worth of exports not taken to Exim because of the feeling that the Bank would not help.

The survey turned up other interesting points which I won't repeat here since they are included in the attached Trade & Industry article. Incidentally, Mr. Draper is well aware of NAM's survey and has dismissed it as bias against the Exim. We don't accept this view. For example, in the first question noted above, we provided companies with a complete range of possible answers from very positive to very negative concerning the job Exim was doing in fulfilling its competitive mandate. Respondents clearly had the opportunity to give the Bank a positive rating if they felt it was justified. Very few did.

I hope this information is useful in your work on Eximbank. Also enclosed is other recent NAM work on the Eximbank budget. I would be glad to answer any questions about the material.

Sincerely,

Howard Lewis III
Assistant Vice President for
International Economic Affairs

HL/dec

Enclosures

cc: Mr. James Bond

TRADE & INDUSTRY
NAM

July 27, 1984

Volume II, Number 11

Internationalizing the Yen: A First Step

Just before the London Economic Summit, the United States and Japan announced agreement on a new package of measures to deregulate international financial use of the yen. According to Treasury Secretary Regan, the goal of the May 29 agreement is to create a situation in which the value of the yen in the world's money markets more fully reflects Japan's strength as a trading and investing nation. The agreement could allow a rise in Japan's domestic interest rates to U.S. and European levels and encourage, over time, a relative strengthening in the value of the yen against the dollar.

It is unclear what short-term effects this agreement will have on the present yen-dollar relationship. Announcement of the agreement did not cause any noticeable strengthening of the yen.

By contrast, several pieces of economic news supportive of the dollar caused the dollar's value to shoot up strongly on June 25 against the yen and European currencies. It was reported that Congress had reached agreement on legislation to eliminate the 30-percent withholding tax on interest paid by U.S. persons to foreign creditors; the U.S. prime rate went up; and the Commerce Department reported stronger than usual growth in the second quarter. In Tokyo the yen fell to its lowest level since September 1983, and it has subsequently fallen to 241 to the dollar. The deutsche mark traded at more than 2.80 to the dollar for the first time since January; the Bundesbank publicly announced intervention on behalf of the mark, which helped bring it back close to the 2.80 level. Meanwhile, sterling reached an all-time low, falling to near $1.30. In early July the dollar strengthened even more against other major currencies.

Whatever the immediate consequences for the yen-dollar exchange rate, it is has become increasingly apparent that no market-oriented international trade system will function properly if the yen is not allowed to move more freely in response to international market forces. Greater deregulation of Japanese financial markets, as foreseen in this agreement, is an essential step in the right direction.

Caterpillar's chairman, Lee Morgan, made this point in a recent letter to President Reagan. "We, and the Japanese," Morgan wrote, "recognize that the decisions made will not result in a quick strengthening of the yen, relative to the dollar. We recognize that some decisions have to be phased in. But we believe the steps announced, which will make the yen a more international currency, are important."

Analysis of Agreement

The May agreement is a direct follow-up to the agreement in principle that the U.S. Treasury Department and the Japanese Ministry of Finance concluded last November, and it is another step in the long-term process of liberalizing Japanese financial markets. Even with these agreements, however, many substantive questions remain unanswered. Notable among these is the question of whether and how the Japanese Ministry of Finance will allow domestic interest rates to move upward, closer to prevailing U.S. and worldwide levels. The *Financial Times* of London has suggested, for example, that with the earlier elimination of some restraints on capital outflows, the Ministry of Finance must now consider using higher interest rates to recapture some of these outflows, for the purpose of refunding Japan's own high level of public debt.

It also remains to be seen whether removal of restraints on foreign direct investment in Japan will be part of the liberalization process. In its report on the U.S.-Japan agreement, Morgan Guaranty's *World Financial Markets* pointed out that foreign-owned direct investment assets in Japan in 1983 equalled only 0.4 percent of GNP, compared to 3.4 percent in the U.S. and 3.0 percent in Germany. The newsletter noted that recent Japanese capital liberalization measures had encouraged capital outflows and that Japanese companies were more aggressively investing abroad, while inflows remain restricted.

"The contrast between vigorous outflows and sluggish inflows gives some credence to foreign suspicions that Japan has managed its external liberalization in a way that depresses the yen's exchange value and thereby maintains unfair competitive advantage for Japanese business," the newsletter said.

The actual terms of the latest agreement focus on three areas:

continued on page 5

Companies Rate Export-Import Bank

A recent NAM survey suggests serious dissatisfaction in the U.S. business community regarding the Export-Import Bank's ability to offer competitive export financing. In November 1983, Congress amended EximBank's charter, making it clear that the competitiveness of U.S. exports is more important than making money or even breaking even. In the language of the statute, "The Bank shall consider its average cost of money as one factor in its determination of interest rates, where such consideration does not impair the Bank's primary function of expanding United States exports through fully competitive financing."

Competitive Mandate

How well the bank has carried out its competitive mandate to date is a major question raised in the new NAM survey. So far, 43 companies have responded. Of these, 10 percent felt that the bank was not doing this part of its job "at all" and 53 percent felt that it was doing it "inadequately." Only 20 percent of the respondents said that Exim was "adequately" meeting its competitive mandate *(table 1)*.

One engineering/construction firm wrote that "the name of the game is to

continued on page 2

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get the export . . . and not just grind out paper [preliminary commitments] that can't win business." The firm added: "Exporters need the Bank's 'best shot' the first time."

A major semiconductor firm said, "Traditionally, Exim programs have been geared towards transportation, mining equipment, and large capital equipment exporters. These are not the high-potential export products. High technology equipment exporters have different needs."

A heavy equipment manufacturer wrote: "Exim needs to become *active* rather than *reactive*. We should not have to fight an uphill, time-critical battle with EximBank each time a competitive situation arises."

The response to this most recent NAM survey exceeds NAM's last major survey on this subject conducted in 1977 and also apparently represents a larger sampling of corporate opinion than EximBank uses in preparing its own competitiveness reports. At a meeting of Exim's Advisory Committee of private sector representatives on May 31, Exim officials stated that only 10 corporations were formally surveyed by the bank and perhaps an equal number were informally contacted by telephone. Similar survey procedures were reportedly used with the banking community. Any greater surveying effort would have to be cleared by the Office of Management and Budget, an Exim official said.

Business Not Going to Exim

The results of the new NAM survey indicate that U.S. companies often do not even bother to bring business to the bank to see if financing support might be available. Over the past year-and-a-half, 68 percent of the companies responding to the survey did not take business to Exim because they felt financing was either not available or uncompetitive. Fifty-eight percent of the companies rated this business as either "very important" or "important." Eighteen companies alone identified nearly $1 billion worth of export business that they did not take to the EximBank during this period because they did not believe the bank would help *(table 2)*.

Some of the business not going to the EximBank is instead being sourced by U.S. firms out of their foreign subsidiaries. Sixty-three percent of the companies surveyed said they have supplied goods from foreign plants because of the availability of better export credit facilities abroad. In the words of one company official, "We will regularly offer equipment from both U.S. and overseas plants for the same job. This is done primarily due to the uncertainty surrounding Exim rates and availability. Exim is usually too slow in responding to competitive financing verification."

The NAM results on foreign sourcing confirm the findings of a survey conducted by the Machinery and Allied Products Institute (MAPI) in 1981. The MAPI survey of just 39 companies found that $386 million worth of business in 1981 was sourced overseas because of better official financing support.

As for export business actually taken to the bank, the companies who responded to the NAM survey said that they requested a total of 127 preliminary commitments (PCs) for Exim financing from the beginning of FY 83 to the present. Fifty-three percent of these PCs were accepted and 45 percent of those acceptances actually became loans. Forty-three percent of the 127 PCs requested were either rejected or held without action.

The NAM survey clearly shows that the export financing facilities in all other major industrial countries are superior to those of EximBank. The Japanese and French systems are rated far higher than the U.S. system as are those of the United Kingdom and Brazil. Ratings for Italy, Canada and Germany suggest that those countries have only a slight edge over the United States in export credit. In no case, however, did the ratings show foreign financing facilities to be inferior or even equal to the official U.S. financing system; they were all rated as better *(table 3)*.

Among the aspects of Exim's policy that U.S. manufacturers find most troubling are these:

- application of a 2 percent user fee on disbursed loans;
- relatively high interest rates on direct loans;
- a percentage of loan coverage that is below, and so not competitive with, foreign offerings;
- the virtual absence of a mixed credit program; and
- lack of medium-term credit.

While critical of Exim policies in these areas, survey respondents identified several relatively new Exim programs that have enhanced the competitiveness of U.S. export financing. The improvement most frequently cited was the reduction of Exim interest rates to OECD levels. Other improvements mentioned were 1) the increase in direct loan cover from 65 percent to 75 percent, with an additional 10 percent of the loan coming from the supplier at interest rates matching those of the official loan package; 2) the more aggressive approach to small business; and 3) Exim's guarantee of payments in currencies other than dollars.

Exim Competitiveness Report

The findings of NAM's survey on EximBank contrast sharply with the conclusions of the bank's own competitiveness report, a draft of which was released at the May 31 Advisory Committee meeting mentioned above. This draft stated "all indications are that 1983 was a year in which long-term U.S. export credit moved to absolute competitiveness with the standard official export credit and reduced the gap between the U.S. system and its competitors in extraordinary support." The report acknowledged that this competitive assessment for 1983 was based on a level of EximBank activity 40 percent below that of 1962 and 66 percent below that of 1981 and 1980.

It should be noted that for 1984 the bank only expects to use $2.6 billion out of its $3.8 billion allocation for direct loans. And that assessment may be unduly optimistic. By May 30, which was the end of the eighth month of FY 84, the bank had spent only 25 percent of its direct loan budget. Just to keep pace with the lower loan target of $2.6 billion the bank would have had to have spent 82 percent—$780 million—more than it actually did in the period from October 1983 to May 1984.

continued

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EximBank *continued*

The low level of EximBank loan activity is undoubtedly due to the relatively slow rate of economic growth in America's major export markets, especially Latin America, and to the strong U.S. dollar, which has sharply cut into the price competitiveness of U.S. goods. Exim's draft report quite correctly cites these factors as influencing the demand for the bank's services.

The NAM survey results, however, suggest that Latin American austerity and the overvalued dollar may not be the only explanations for Exim's relative quiescence. There is a widespread perception in the U.S. business community that in many cases the EximBank is simply not going to provide fully competitive financing, the kind that would be needed to neutralize that offered by our overseas competitors. This perception has influenced American business decisions, not only on whether but on how to seek overseas business.

Survey Follow-Up

The survey described above represents a first step in NAM's effort to get the views of member companies on EximBank's policies. Almost 30 companies said they have case examples that demonstrate both positive and negative aspects of the Exim financing program. Furthermore, they have indicated a willingness to work with NAM in developing case studies to be used in evaluating how well the bank is meeting its competitiveness mandate. The results of this work will be published in future editions of *Trade & Industry*.

NAM contact: Howard Lewis, (202) 626-3771. ■

Table 1

Respondents Rate Implementation of Competitiveness Mandate

Aggressively 0%	*Inadequately* 53%
Adequately 20%	*Not at all* 10%

Table 2

Three Questions Answered

■ From the beginning of FY 83 to date, are there instances where your company did not take business to the EximBank because you believed that financing was either not available or uncompetitive?

yes 68%   *no* 27%

■ If the answer to the preceding question was "yes," how would you characterize the importance of this business to your company?

Very important 35%	*Somewhat important* 7%
Important 23%	*Not important* 0%

■ If possible, can you provide either the number of cases or the dollar value of the business not taken to the Eximbank?

- 18 responses ranging from $300,000 to $500 million
- Total: $954.85 million
- Average: $50 million

Table 3

Respondents Rate Foreign Export Finance Facilities

	Better than U.S.	Same as U.S.	Worse than U.S.
Brazil	58%	5%	5%
Canada	43	28	5
France	78	15	0
Germany	48	38	8
Italy	43	25	3
Japan	85	3	3
South Korea	38	20	8
U.K.	60	28	0

Update on EC Directives

The U.S. Industry Coordinating Group, representing NAM and four other major U.S. industry associations, has issued a position paper that is highly critical of the draft Fifth Company Law Directive proposed by the European Commission. The Fifth Directive, which ostensibly seeks to to harmonize the organization and structure of corporate boards throughout the European Community, would require member states to establish mandatory systems of board-level employee representation.

Most of the EC countries have some form of employer-employee consultation, but the type of board structure proposed in the draft Fifth Directive is prevalent only in Germany. The new coordinating group paper opposes the effort to extend this kind of consultation process to all EC member countries. The present version of the directive, which has been proposed by the commission, must still be approved by the Council of Ministers, representing the 10 member countries.

On June 21, EC Commissioner for Internal Markets Karl-Heinz Narjes met with NAM President Alexander Trowbridge and NAM International Investment Committee representatives to discuss this and other issues affecting U.S.-EC relations. Narjes said that, except for Britain, all EC members have accepted the essential concepts of the Fifth Directive, and he emphasized the necessity of having such a directive for all of the EC. Anything less, he said, might lead to "internal industrial migration" in the EC away from countries like Germany that have mandatory co-determination laws. Whether the directive can be adopted over Britain's objection, however, is an open question.

The comtemplated Ninth Directive, which would regulate the relationship between parent corporations and their subsidiaries, is even more controversial. The first step is for the commission to submit a formal proposal to the Council of Ministers. It will then be up to the European Parliament and the Economic and Social Committee to comment on the proposal.

The issue of a ninth directive was evidently not taken up at the commission's meeting on July 4, and it is therefore unlikely that it will be taken up before September, if then.

Vredeling Directive

National views on the commission-approved "Vredeling" directive remain divided, and the EC Council of Ministers has again postponed action on this proposed directive. The directive would create new obligations for EC employers regarding the information they provide to employee representatives. It would also require companies to consult with workers on matters that affect employ-

continued

Directives *continued*

ment in EC countries, but, like the Fifth Directive, its requirements would apply only to companies or national subsidiaries with at least 1,000 employees. One of many issues holding up the Vredeling directive is whether the employee representatives need necessarily be union officials or whether employees could fill this role.

Speaking in New York, EC Social Affairs Commissioner Ivor Richard counted only four countries as being definitely in favor of the proposal as it now stands: France, Greece, Italy and the Netherlands. On the other hand, he said, only Britain is opposed in principle to the idea of such a directive. Richard noted, however, that Ireland too is concerned, primarily by the effect the directive might have on foreign investment there. As a rule, directives must be approved by a unanimous vote of the national governments represented in the Council of Ministers. Moreover, since directives are binding as to ends but not self-enforcing, each member state would have to enact its own implementing legislation.

Details of Fifth Directive Paper

The USICG paper on the Fifth Directive represents the views of NAM, the Council of American Chambers of Commerce (Europe and the Mediterranean), the U.S. Chamber of Commerce, the U.S. Council for International Business, and the National Foreign Trade Council. Unlike this group's 1983 papers on the Vredeling Directive, the Fifth Directive paper does not challenege the basic need for a directive harmonizing company law in the EC. Instead, the paper indicates the support of U.S. business operating in the EC for harmonization insofar as it reduces "cost-augmenting inconsistencies and anomalies" in regulation. However, the paper refuses to "endorse harmonization proposals which appear likely to hinder or frustrate the enhancement of productivity and competitiveness."

It, therefore, focuses on provisions which would radically overhaul corporate board structures in most EC countries principally for the purpose of requiring board-level employee consultation. This strategy is likely to lead to inefficiencies in corporate operations, especially since the proposal takes little account of consultation-practices in operation in many countries, according to the American business paper. U.S. companies, it says, "view with concern measures such as the proposed Fifth Directive which push regulation beyond the farthest limit reached in any member state." Even in Germany, where board-level co-determination already exists, the Fifth Directive would establish new prior consultation rights of the supervisory board, including employee representatives, over a wide range of management decisions, such as plant closings, curtailment or expansion of corporate activities and joint venture agreements.

Copies of the USICG paper, as well as the full text of the proposed directive, are available from the NAM International Economic Affairs Department.

NAM contact: Stephen Cooney, (202) 626-3819.■

Progress Report on Bilateral Investment Treaty Effort

The effort to negotiate bilateral investment treaties (BITs) with less-developed countries not covered by existing treaties of friendship, commerce and navigation (FCN) has continued with two more treaties signed in recent months (Haiti and Senegal) and a third treaty recently initialed by the United States and Morocco.

The treaty with Morocco contained some features different from the version signed with other countries.

To date, however, none of the five signed treaties has been ratified by either the United States or the other signatories. The governments of the United States and the People's Republic of China failed in their recent effort to negotiate a treaty or some other form of investment understanding to be signed during President Reagan's April visit to China. To expedite the entire negotiation process, the State Department and the Office of the U.S. Trade Representative (USTR) have developed a more "streamlined" version of the basic model of the U.S. BIT proposal. The intention of the administration is to focus negotiations on those Asian "Pacific Rim" countries of special interest to U.S. investors.

Changes in BIT Negotiated with Morocco

The draft BIT with Morocco was initialed on March 2 by U.S. Trade Representative Brock and Moroccan Finance Minister Jouahri, during a visit to the United States by the prime minister of Morocco. This agreement departed from the procedure established in the first such BIT, signed with Egypt, of listing specific exempted sectors in a lengthy annex. Rather than enumerate whole sectors of the economy as outside application of the treaty, the Moroccan government listed exempted practices in a separate protocol to the treaty. The two practices listed were direct government assistance to locally owned companies in accordance with national development policies and preferential treatment which Morocco may be required to offer third-party companies because of participation in a customs union or regional trade arrangement.

NAM Comments on BIT Process

In a letter of April 30, NAM Vice President for International Economic Affairs Lawrence A. Fox commented favorably on the general approach used in the Morocco BIT. Fox qualified his support, however, noting that the exception for subsidies and other economic assistance to locally owned companies for purposes of "national economic development" was too vaguely defined. This would allow Morocco, for example, to subsidize local companies in competition with U.S.-owned enterprises on a permanent basis, or to subsidize third-party-operated joint venture projects in which local Moroccan interest had titular majority ownership. Fox also suggested that the customs union exception not be made on the same basis in other treaties without an adequate *quid pro quo* for the United States.

With regard to the general model BIT now proposed by the State Department and USTR, Fox noted NAM's support for expediting the negotiation process. But he felt that in some cases the new model agreement cut back too far from the earlier and more detailed versions with respect to national (i.e., non-discriminatory) treatment of foreign investment. For example, he criticized deletion of explicit reference to maintaining equal conditions of competitive access for foreign-owned companies, particularly regarding the output of nationalized industries.

Another issue is the principle of free transfer of remittances. While the draft model upholds this principle, U.S. negotiators have noted the practical necessity of an escape clause for countries experiencing balance-of-payments difficulties. In his letter, Fox noted that infringement of the right to remit profits and other foreign exchange controls for balance-of-payments reasons might be acceptable, but only if such measures were temporary and related to a payments problem officially recognized by the IMF.

Fox also said that the key problem in the present BIT program was not so much in specific negotiating terms sought by the United States, but rather in the lack of a more obviously coordinated relationship with other elements in the administration's international investment policy as spelled out in President Reagan's statement of September 9, 1983. The entire BIT process would be more meaningful, for instance, if greater use had been made of national treatment provisions in existing FCN treaties with countries such as Japan and Korea. The full text of the Fox letter is available from the IEA department.

NAM contact: Stephen Cooney, (202) 626-3819.■

Yen *continued*

Euroyen Market. Within one year, foreign as well as Japanese corporations will be allowed to offer unsecured "Euroyen" bond issues (international bond issues, denominated in yen). Permission to float yen bond issues will be based on credit ratings. All AA-rated corporations worldwide are automatically to be considered as qualified by the Ministry of Finance as well as a "reasonable proportion of the universe of world corporations" with A ratings. Non-Japanese banks are to be allowed to take the lead in managing Euroyen offerings. While there are no limits to the size or number of such issues, bonds must be held for 180 days before resale is allowed in Japan. Also, the Finance Ministry will assess a special withholding tax on interest payments from Japanese sources to non-residents. Possible alternatives to this tax, including simple elimination, are being considered by a working group made up of officials from the Japanese finance ministry and the U.S. treasury.

Japanese domestic capital market. The agreement included steps aimed at deregulating further the Japanese capital markets, but it omits some important ones. For example, the Ministry of Finance has not made any new commitment regarding the artifically low interest rate ceiling for small deposits, such as in Japan's postal savings system. That ceiling is viewed by many as the key to Japan's low interest rate structure. Separately, short-term general public debt instruments (Treasury bills) might be attractive to foreigners interested in holding yen and so could play a useful role in the effort to internationalize the yen. Unfortunately, Japan was not prepared to commit itself to issuing assets of this type.

The ministry did agree, however, to further lower the minimum denomination for certificates of deposit to 100 million yen, or about $420,000 at present exchange rates. This should "relax and remove interest rate ceilings on large denomination deposits in two to three years," and give Japanese banks increased scope for selling large-denomination deposit instruments at market rates.

Access of foreign institutions to Japanese capital markets. The finance ministry has promised to apply the principle of national treatment to foreign banks and financial institutions operating in Japan, and in particular to allow qualified foreign banks to participate in trust banking activities, probably starting in 1985. This should mean access for foreign banks to the handling of Japanese pension funds, a market presently estimated at more than $60 billion. The finance ministry also promised to support the concept of admitting foreign securities firms to the Tokyo Stock Exchange, an autonomous private membership organization.

NAM Comment

Significant though the May 29 agreement may be, the proposed measures only create a more complete, though still unfinished, framework for allowing the yen to move in accord with world market forces. With respect to interest rates and the upward appreciation of the yen, the Japanese government is unlikely to make a more substantial move to ease the restraints on interest rates restraints until it has secured refinancing for the large "hump" of 10-year government bond issues outstanding at low rates of interest and due in 1985-86.

Moreover, in congressional testimony on June 6, former Assistant Secretary of the Treasury C. Fred Bergsten expressed a negative evaluation of the effect of the agreement on exchange rates. Bergsten believed that the new agreement ". . . could well promote more capital outflow and thus weaken the yen. At best, the new steps . . . will strengthen the yen only over an extended period of time—and are more likely simply to increase the amplitude of its fluctuation."

Bergsten therefore stressed that reducing the U.S. budget deficit (and interest rates) remains the "most critically needed step" to alleviate U.S. trade and exchange-rate problems. "Failing such action," he continued, "it may be necessary to adopt 'second best' measures aimed directly at the proximate source of the problem: the capital flows which are swamping trade and current account balances . . ."

IEA STATEMENTS AVAILABLE

- A.B. Trowbridge memo to NAM International Trade and Investment Committees on the Nov. 30-Dec. 15, 1984, investment mission to China. Trowbridge is co-chairman of the OPIC-sponsored mission (7/10/84).
- L.A. Fox letter to Jeanne Archibald, chairman of the Section 301 Committee of the Office of the U.S. Trade Representative, supporting a full investigation of the 301 petition filed on behalf of Transpace Carriers, Inc., concerning trade in satellite services (7/9/84).
- L.A. Fox letter to William Draper III, president and chairman of the board of the Export-Import Bank, requesting that the bank eliminate its 2 percent application fee (7/11/84).

Bergsten then suggested consideration of flotation of high interest European and Japanese government bonds, for the purpose of encouraging capital inflows. He also suggested consideration of reimposition of measures in Europe and Japan to control capital outflows.

The recent agreement may not result in an appreciation of the yen in the short run. In the long run it is difficult to see how the yen can be made to reflect more fully the economic strength of Japan without linking the yen to international market forces. For it is the strong international market performance of Japanese exports which has itself defined the need for, and appropriateness of, an internationally stronger yen. The treasury agreement with Japan helps create the basis for a Japanese financial market more open to world market forces and a Japanese currency whose value is less shielded from world market demand. How long it will take to bring about a substantially stronger yen is entirely a matter of conjecture. But this result will be speeded up if the United States and other important trading countries continue to press Japan to remove domestic and international constraints on the use of the yen.

NAM contact: Stephen Cooney, (202) 626-3819. ■

USTR Accepts Transpace Petition

The fledgling U.S. satellite-launching industry got a boost from the Office of the U.S. Trade Representative (USTR) July 9 when USTR decided to open an investigation of the charges Transpace Carriers, Inc., (TCI) has leveled against its European competitor. TCI expects to be the first private American company to sell the very specialized service of boosting communications and other satellites from earth to orbit. In a petition filed with USTR on May 25, TCI charged the French company, Arianespace, S.A., with unfair trade practices as defined in Section 301 of the Trade Act of 1974.

Arianespace is more than just a French company. It is the commercial arm of the European Space Agency (ESA), and its shareholders are the companies in the ESA countries that were working on Europe's satellite launching program prior to the creation of Arianespace in 1980. According to the TCI petition, the European Space Agency countries and

Transpace *continued*

lessens the U.S. government's responsibility to fashion a commercial environment in which private firms can compete.

"The lack of agreed international rules governing trade in services is among the most serious defects of the international trading system," Fox said. He also noted that trade in goods and trade in services are already very closely linked, "and the interrelationship, if not the interdependence, of the two is likely to increase."

The relationship in this case could not be more critical. To boost a satellite from earth to orbit, it takes a rocket, either the U.S. Delta or the French Ariane. In the case of the Delta, that is a $20 million piece of hardware, and, presumably, there are companies beyond TCI that would prefer to see it, rather than Ariane, become the vehicle of choice for boosting commercial satellites. According to the TCI petition, "Major Delta supply contractors include McDonnell Douglas, Morton Thiokol, TRW, the Rocketdyne Division of Rockwell International and Delco."

Fox pointed out that the lack of agreed-upon rules governing the forms of assistance that governments may and may not provide to selected industries has become a source of serious friction in international trade. It is not unreasonable to suppose that one of USTR's reasons for accepting this case was that it offers an opportunity to deal with these issues.

If TCI was pleased, as they must have been, by USTR's decision to investigate, the news was just as surely a disappointment to the European Space Agency. In a letter of June 20 to Jeanne Archibald, chairwoman of the U.S. government's 301 Committee, ESA Director-General E. Quistgaard argued against the opening of a Section 301 investigation. He said that the ESA countries would be prepared "to enter into talks with the American Government for the purpose of creating the conditions for healthy competition—but outside the Section 301 procedure."

ESA was notified of the USTR's decision the day it became official, July 9, and presumably they will now discuss the matter within the context of a 301 investigation. If the past is any guide, that is how this case will be resolved. Most 301 cases are brought to a conclusion on the basis of negotiations with the countries complained about. But this is an unusual case, and its conclusion is hard to predict.

Within the next year, USTR must make a recommendation to the president. They have requested comments from interested parties by September 7, 1984. The remedies TCI would like to see adopted are clearly stated in the petition: "The President is requested to retaliate by prohibiting Arianespace U.S.A. from advertising and marketing its services in the United States and by imposing economic sanctions against the goods and services of the Member States of ESA." Petitioners rarely get everything they ask for, and in this case there is the added consideration that the economic "retaliation" requested could lead to counter-retaliation by the ESA member countries. While there is no plan at thi time to hold a public hearing, there would be a hearing in the event that trade sanctions were being considered, according to Jeanne Archibald of USTR.

NAM contact: R.K. Morris, (202) 626-3809.■

SUBCOMMITTEE RECESS

Senator KASTEN. That concludes today's hearing until next Monday when we will receive testimony from the Honorable Jeane Kirkpatrick in support of the United Nations appropriations under the jurisdiction of this subcommittee.

The hearing is adjourned.

[Whereupon, at 3:30 p.m., Wednesday, March 20, the subcommittee was recessed, to reconvene Monday, March 25, 1985.]

FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1986

MONDAY, MARCH 25, 1985

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 9:24 a.m., in room SD-192, Dirksen Senate Office Building, Hon. Robert W. Kasten, Jr. (chairman) presiding.

Present: Senator Kasten.

UNITED NATIONS

U.S. PERMANENT REPRESENTATIVE

STATEMENT OF HON. JEANE KIRKPATRICK, U.S. PERMANENT REPRESENTATIVE TO THE UNITED NATIONS

INTRODUCTION OF WITNESSES

Senator KASTEN. The subcommittee will come to order. This morning we will receive testimony from the Honorable Jeane Kirkpatrick, the Permanent Representative of the United States to the United Nations. Jeane, this subcommittee is, once again, honored to have you here with us. I personally would like to express my deep admiration and congratulations for all of your work at the United Nations and also for the work you have done with all of us in terms of overall policy and policy guidance. Your appearance here today will mark your last before this Committee as Ambassador to the United Nations, but there may be other reasons in the not too distant future, I hope, for you to be with us, possibly in another capacity, or even as a private citizen.

You can be sure that it is my hope, as well as the hope of many who are on this committee, that you will continue to provide all of us with key foreign policy guidance. Your full statement, as you know, will be printed in the record, together with the statement that has been submitted by the Bureau of International Organizations at the State Department.

In order to allow time for questions, I suggest that you summarize your prepared statement and highlight those points which you especially wish to make, and then we will begin with questions. It is a pleasure to have you with us today.

ASSISTANCE TO U.N. FROM COMMITTEE

Ambassador KIRKPATRICK. Thank you very much. I would say, first of all, that I am always pleased to appear before this subcommittee, and I should like to emphasize in this, my last appearance before the subcommittee as U.S. Permanent Representative to the United Nations, my profound conviction that the interest that the subcommittee has taken in the United Nations and our operations at the U.S. mission have been exceedingly constructive and helpful, and I personally appreciated it. The whole U.S. team, and the U.S. mission appreciates it.

REPORTING REQUIREMENTS ON U.N. VOTING BEHAVIOR

I reiterate in my prepared testimony that I believe that the reporting requirements on voting behavior and practices of other countries in the United Nations has also been an exceedingly useful tool.

I think it is not my business to be concerned here with legislative oversight, but I do believe it is a useful tool as U.S. Permanent Representative for the United Nations. It has been a useful tool in our work in illuminating, in an objective way, what the responses of other countries are through time and across a wide variety of issues toward American policies and the basic values and goals of American foreign policy.

The United Nations is a very important institution. We contribute over $1.5 billion. The U.N. budget is about $4 billion. There are about 50,000 persons employed worldwide in the United Nations. It is an important worldwide operation. It can be either constructive or not constructive.

The Congress has a very important role to play in ensuring that American monies contribute to constructive goals conceived and chartered at the United Nations. I just want to underscore that again and to thank you, Bob, for your continuing interest and other Members of the Congress, as well, for their continuing interest and support for the U.S. Representation activities there.

U.N. VOTING RECORDS

I emphasize again in my testimony that no one believes that the voting record of individual nations in the United Nations ought to be the sole basis of our foreign policy, the sole determinant of our attitude toward those nations. Obviously, the United States has multiple interests. We have strategic, moral, and economic interests that are quite independent of U.N. behavior.

But it is also true that our relations with countries in the U.N. are important. They are not trivial, and we think they need to be taken seriously.

U.N. votes, while not the only determinant of a country's attitude toward us or their relationship with us, need to be taken into account when we think about the U.S. relations with other countries.

U.N. ACTIVITIES AND OPERATIONS

The U.N. is the only place where all the countries in the world gather to talk about all the issues in the world, as you know from your experience as a public delegate, a congressional representative there. The range of issues discussed in the United Nations is dazzling. As you know from observing the development of world economic and security policies, the consequences of U.N. decisions are cumulative; they are large; and they finally influence the whole world's view about what is a problem, who is an outlaw, and whether American companies can compete in developing areas, for example, or whether they are going to labor under absolutely prohibitory kinds of so-called regulations that are really prohibitions or whether the United States will be able to maintain a military presence in places like the Indian Ocean or outer space.

There is virtually no effort of economic, security, or medical policy in the world today that is not affected by the decisions of U.N. bodies, above all, the General Assembly and its various committees and commissions.

As you know, the United States has tried to identify from among this whole myriad of issues certain issues that are particularly and vitally important to our country and our national interests, and we have tried to do that in advance of the General Assembly. We try to anticipate what might be coming up and identify issues of particular concern to us; communicate our concern to other nations; inform them about the issue and why we are concerned about them, and solicit their help in dealing with these matters, a few matters always, of vital concern to our country.

KEY VOTE ANALYSIS

I want to emphasize that in the case of our key vote analysis, other countries in the United Nations were all well informed in advance of votes on those issues where the U.S. Government regarded those issues as matters of vital concern to us, either for reasons of security or for reasons of moral principle.

I might just mention the kind of issue that we have identified for our key vote analysis: one was, of course, the annual effort to expel Israel by denying Israel's credentials in the General Assembly, thus barring participation. We identified this vote as a key vote. We informed everyone many months in advance, and we undertook to make the issue clear.

We identified the resolution calling for the withdrawal of foreign troops from Afghanistan and from Cambodia as key votes. We identified an American resolution, a very constructive resolution designed to bring chemical and bacteriological weapons under control as a key vote. We identified a human rights resolution that sought to bar all military aid to El Salvador as a key vote. We identified a vote on the construction of a new conference center in Ethiopia as a key vote, because we thought there was hardly a more frivolous way for the United Nations to spend $73 million in Ethiopia, at a time when hundreds of thousands of Ethiopians are literally starving, than to build an elaborate new $73 million conference center.

We also identified two votes that criticized the United States by name. We have taken the view that it is demeaning to the United States to be singled out for criticism in this world body in which the Soviet Union, for example, is never singled out for criticism. Even in the resolution on Afghanistan, the Soviet Union is not mentioned by name. But when they say "foreign troops withdraw," they don't say whose troops are withdrawing. No nations are singled out except the United States and Israel and South Africa. We have taken the view that it is not fair treatment of the United States, and we desire to be treated fairly.

I have said that our operational goal in the U.N. is to achieve a state where the United States is as fairly treated as any small Third World nation can regularly count on being treated.

U.S. IMPROVEMENT ON KEY VOTE ANALYSIS

Our key vote analysis shows that we did a great deal better on the key votes than we did when we consider all the votes that were cast. That is as it should be, because we worked very hard on those key votes, and we did inform all the countries in the world.

Also, our analysis demonstrates that we did better, by far, on key vote analysis, substantially so, this year than last year, and it is because we had sharpened our tools in providing a kind of worldwide information program, what in congressional terms might be called a worldwide lobbying effort.

I would like to emphasize that our experience shows that systematic, active U.S. effort to identify issues of great concern to us, inform others about it, ~~and~~ lobby them on it pays dividends in the decisions that are finally adopted. It doesn't win unusual privileges for us. I repeat, we are not seeking privileges; we are really only seeking fair treatment of the kind that any ordinary Third World nation in the United Nations can count on.

NAME-CALLING ISSUE

We also undertook a new analysis this year on what we call the name-calling issue. On page 15, you would see that we have singled out name-calling votes. There were some 20 name-calling votes. Each time the United States was singled out for criticism, the United States called for a separate vote on that paragraph, so we had a lot of separate votes, 20, to be precise, on paragraphs of resolutions that singled us out for criticism by name.

It was time consuming, and it wasn't entirely welcome to some, even quite friendly nations who had become accustomed to our acquiescing to being poorly treated, if I may say so.

I think it was a worthwhile effort. I think it produced the situation of greater mutual respect between the United States and other member nations.

I would say that one sees, in a general kind of way again this year, the pattern of votes in the United Nations resemble, but not exactly, the pattern of our bilateral relations in the world. Generally speaking, the countries we have the closest relationship with in our bilateral relations also turn out to be the countries whom we most often vote in common with in the United Nations.

NATIONS VOTING MORE OFTEN WITH UNITED STATES

Once again, the State of Israel votes more often in the same fashion as the United States than any other nation in the world. Coming very soon thereafter are our good friends in Western Europe, the United Kingdom and the Federal Republic of Germany, Belgium, Luxembourg, the Netherlands, and so forth, our NATO allies.

Unfortunately, there continues to be a clear indication of the general predisposition of the General Assembly to lean toward kind of a Third World radical rhetoric, which is more acceptable to the Soviet Bloc and the radical nations than it is to us.

It is important that we continue to be clear about that, and that we continue to make clear what we stand for. I might say that there was an item in the newspapers recently suggesting that the United States had voted less often with a majority this year than in past years, and that is true. I would like to point out, however, that that is a factor that is totally within our decision. It is not something somebody else decided. We decide whether we want to vote with the majority or not. The Soviet Union more often votes with the majority than we do.

BUDGET CRISIS IN U.N.

We felt that the budget crisis in the U.N. had become so acute that it was important for us to adopt a standard U.S. policy, a practice of voting against resolutions which would require funding beyond the program budget of the United Nations. The practice developed, you will recall, of simply adding onto the budget by passing resolutions in the General Assembly whose funding was not provided for by the budget, and it was automatically, then, assumed that by passing the resolution the necessary funds would be added on.

We took the position, because the budget was so wildly out of control, that add-on budgeting had to stop; at least we had to make clear that we strenuously opposed it. So even on resolutions which we supported the substantive content of, we voted no unless the resolution provided for funding.

I may say that there is nothing to be satisfied about U.N. budgeting for anyone. It is generally recognized in the United Nations that the budget has, to some extent, been affected by our very strong budgetary drive over the last 2 years. The rate of growth of the U.N. budget has been slowed, and we have as a matter of fact, in the past year, scored two or three fairly major victories on the budget.

We have been able to do that because we have been consistent, and because we have been determined not to support any resolution which provided runaway budget practices along with the aspects.

That is what I would like to point out to you. You see that I have provided in my testimony a numerical report on how the various countries in all the parts of the world voted with regard to all plenary votes and with regard to the 10 key votes. We regard the 10 key votes as the most important, because they specifically vote on America's vital interests.

I wish to include, as an attachment to my prepared statement, the prepared testimony of Gregory J. Newell, Assistant Secretary of State for International Organization Affairs.

Thank you.

[The statements follow:]

UNITED STATES MISSION TO THE UNITED NATIONS

799 United Nations Plaza
New York, N. Y. 10017

PREPARED STATEMENT OF HON. JEANE J. KIRKPATRICK

U.S. PERMANENT REPRESENTATIVE TO THE UNITED NATIONS

As always, I am honored to appear before a committee of the Congress to report on events in the United Nations. I am especially pleased to appear before a Senator such as you Senator Kasten, who has sustained a longstanding interest in the United Nations. Today marks the second Congressional inquiry relative to implementation of the requirements of the Congress which require that the U.S. Permanent Representative to the United Nations furnish to Congress country-by-country reports on voting patterns and practices at the United Nations during the previous year.

I propose today, first, to provide a preview of the Administration's upcoming report to the Congress on Voting Practices in the Thirty Ninth General Assembly, which will be submitted to the Congress very soon and, second, to comment on how the United States might further enhance influence in the U.N. system and contribute to constructive outcomes in the General Assembly and throughout the system.

I desire to reiterate again this year that I welcome and endorse fully these reporting requirements. Indeed, after a year's experience with the reports, I even more firmly believe that these legislative enactments provide an important tool for Congress in the fulfillment of its oversight responsibilities concerning the conduct of U.S. foreign relations and, also, an important tool for those charged with representing the United States in the United Nations.

It would be difficult to overstate the importance of close and continuing attention by Congress to the United Nations. After all, through their representatives in Congress, the American people contribute over one-and-a-half billion tax dollars annually toward

the U.N. budget, and they contribute additional billions annually to many of the nations who play important roles in the activities and decisions of the United Nations. Our financial support of the United Nations and the assistance we provide to other nations symbolize our continuing commitment to the principles of the U.N. Charter and our dedication to cooperation with other nations in working toward the principles of the Charter. The reporting requirements which the Congress has imposed provide the Congress reliable information on the degree of support by other governments of views, values and policies similar to our own.

What Voting Reports Tell Us:

Annual review of U.N. voting patterns and practices provide the Congress with a reliable, systematic basis for assessing the attitudes, the policies and the decisions of U.N. members on the questions that come before the U.N. General Assembly and Security Council. They provide reliable evidence of what has happened on issues of importance to us. From this evidence, it is possible to make judgments about whose values and views are harmonious with our own, whose policies are consistently opposed to ours, and whose practices fall in between. Beyond views and values lie interests -- often vital interests. So it is important that the Congress take due note of actions which are consistent with, or are opposed to, vital U.S. interests.

In examining the voting record of U.N. member states, it should, of course, be borne in mind that relations in the United Nations are only one dimension of our relations with other countries and often are not the most important aspect of these relations. Economic, strategic and moral factors may be and often are more important to our interest and to U.S. policy than a country's behavior inside the United Nations. However, at the same time, a country's behavior toward us inside the United Nations is not trivial. If the decisions and policies of the key bodies of the United Nations matter, then the votes of member nations also matter.

What U.N. Votes Tell Us:

The United Nations General Assembly functions very much like a great global parliament. Discussion, debate and negotiations are its principal activities. Votes are its principal product.

Votes in the General Assembly take place at the end of a long process -- they are both the culmination and the ratification of all that has gone before: the inscription of an issue on the agenda, its discussion and amendment in committee, the vote in committee, the debate in the plenary session, the failure to reach a consensus.

Some very important issues are decided in earlier stages of the deliberation process and are never the subject of a vote in the plenary session. In 1984 a number of issues important to the United States were settled in committee or through negotiations and never reached the plenary session. 1984 saw the restoration in committee of the principle of decision by consensus on the Peaceful Uses of Outer Space and on the matter of the Indian Ocean Zone of Peace. The African Declaration which addressed the urgent economic problems confronting that continent was adopted by consensus. So was a resolution sponsored by the Contadora group endorsing its efforts for peace in Central America. Votes represent the disagreements that remain after all the possible agreements have been reached.

Altogether, in the 1984 General Assembly, 187 issues were decided by consensus with no vote recorded, but 153 were settled by vote. In some cases, votes were cast not only on final resolutions but on separate paragraphs as well. The resolutions deal with an extremely broad range of subjects: the Soviet invasion and continuing occupation of Afghanistan; economic development; arms control; outer space; the Indian Ocean "Zone of Peace;" human rights in three Latin American countries; apartheid; the Arab-Israeli conflict; and others.

By the end of the General Assembly, every member had expressed itself on a very broad range of very difficult and important questions.

Why U.N. Votes Matter:

To an extent greater than often realized, what occurs at the United Nations involves central issues of world politics and frequently touches upon vital U.S. national goals and interests.

It, therefore, is obvious that the conduct of other U.N. members, with regard to these goals and interests, is very important to us. Relations inside the United Nations constitute a significant dimension of our relations with other countries and deserve to be considered with seriousness. Decisions of the General Assembly, for example, are not legally binding, but they frequently have real significance for the conduct of our foreign affairs both inside and outside the United Nations:

(1) Decisions of the General Assembly guide and largely determine the policies of U.N. bodies and the U.N. system with its four plus billion dollar budget and its approximately 50,000 employees,

(2) U.N. votes focus world attention on some problems and away from others and, in the process, greatly influence the definition of what constitutes a problem. Thus, repeated actions of the General Assembly and the Security Council define Israeli presence in Lebanon as a pressing international problem, while inaction defines Syria's larger military presence as not a problem requiring world attention,

(3) U.N. votes shape the context in which the American government and American companies must operate with regard to important matters. U.N. policy, with regard to observers and peacekeeping forces in Lebanon, affect the policy options available to us. U.S. consumer codes and regulations affect the context in which American companies work and compete abroad,
and so forth,

(4) U.N. votes define "world opinion" on major issues. Since there are no other arenas in which all the countries of the world express their opinions on policy, the decisions of U.N. bodies are widely taken as the most valid expression of "world opinion."

Votes are treated as the expression of world opinion, even though everyone understands that there have developed inside the U.N. structures and conventions that greatly influence the behavior and votes of member states.

Because a General Assembly acts on so many diverse issues, the voting record of a U.N. member during a General Assembly tells us a good deal about a country's orientation in world arenas: where it stands, with whom it stands (at least in a U.N. context) and for what purposes.

Findings

The United Nations, of course, does not exist in isolation, in a political vacuum. It is embedded in a larger political world and, sensitively, reacts to changing relationships in that world. Not surprisingly then, the tabulations of the 39th UNGA show that the bilateral relationships of the United States with other countries tend to be reflected in the degree of coincidence of our respective UNGA voting records. Regrettably, however, friendly relations between the United States and a particular country are often not always translated into a corresponding degree of voting coincidence within the United Nations context.

As in previous years', the state of Israel again had the highest level of coincidence with the United States. In 1984 the Israel/U.S. voting coincidence was higher still -- at 88.5 percent. Great Britain (82.1%), FRG (80%), Belgium (76.6%), Luxembourg (76.0%) and the Netherlands (74.5%) scored the next highest coincidence with U.S. Voting.

On the other hand, states closely associated with the Soviet Union such as Angola (4.9%), South Yemen (4.8%), Algeria (4.3%), Cuba (4.1%), and Mozambique and Albania (3.9%) are found at the opposite end of the spectrum.

Regionally, the picture is about the same as in 1982 and 1983. In the Latin American regional group -- Dominica (63.2%), Grenada (60.0%) and Paraguay (35.5%) -- had the highest degree of voting coincidence while Mexico (9.0%), Nicaragua (6.8%) and Cuba (4.1%) had the lowest.

In the African group, the highest levels of voting coincidence were the Ivory Coast (29.8%), Liberia (28.6%) and Central African Republic (27.5%), while the lowest coincidence occurred with the respective voting records of Algeria (4.3%) and Mozambique (3.9%).

The Asian group saw high coincidence levels for Japan (70.9%), Australia (62.4%) and New Zealand (60.6%) while the lowest levels were those of Vietnam, Syria and Laos (all of which had 4.9%) and South Yemen (4.8%).

The same patterns held within the Non-Aligned Movement -- Grenada (60.0%), St. Kitts (45.5%) and Belize (39.1%) had high coincidence levels, while Algeria (4.3%), Cuba (4.1%) and Mozambique (3.9%) were the lowest.

Generally speaking, the patterns of voting coincidence within the U.N. are quite stable, with highest levels of coincidence regularly registered by Israel and our NATO allies, and lowest levels by the Arab bloc and Warsaw Pact countries. However, there were certain significant changes last year.

All Plenary Votes by Major Bloc: Coincidence of voting with the U.S., yes/no only.

	1983	1984
NATO	64.6	65.9
Western Europe	53.8	55.4
American Republics	26.8	23.2
All Countries	25.5	21.0
ASEAN	24.7	15.5
Asia and Pacific	21.5	14.9
Africa	18.6	12.8
Non-Aligned	18.9	12.8
Warsaw Pact	13.7	12.2
Eastern Europe	14.2	12.1
Islamic Conference	18.9	12.0
Arab League	17.5	10.0

Table 1

UN VOTING RECORD*
39th GENERAL ASSEMBLY

ALL UNGA PLENARY VOTES**
Percent Coincidence
with U.S. Votes (Yes/No)

AFRICA

Ivory Coast	29.8	Mauritania	11.8
Liberia	28.6	Guinea	11.7
Central African Rep.	27.5	Sudan	11.6
Chad	24.8	Lesotho	11.3
Togo	24.0	Sierra Leone	11.3
Gabon	22.6	Zambia	11.3
Mauritius	21.1	Tunisia	10.8
Morocco	20.1	Mali	10.4
Zaire	18.4	Nigeria	10.3
Senegal	17.8	Seychelles, The	10.0
Niger	17.7	Zimbabwe	9.3
Equatorial Guinea	16.1	Tanzania	8.5
Comoros	14.9	Sao Tome & Principe	8.2
Malawi	14.3	Uganda	8.2
Somalia	14.1	Cape Verde	7.4
Gambia	13.6	Ethiopia	7.0
Rwanda	13.2	Burkina Faso	6.9
Cameroon	12.9	Madagascar	6.5
Botswana	12.5	Congo	6.4
Egypt	12.5	Benin	5.8
Djibouti	12.3	Libya	5.4
Ghana	12.1	Angola	4.9
Kenya	12.1	Swaziland	4.7
Burundi	11.8	Algeria	4.3
Guinea Bissau	11.8	Mozambique	3.9
Group Average	12.8		

* Table contains all countries which participated in the 39th UNGA September - December 1984

** Table reflects all votes recorded in UNGA including separate paragraph votes

EASTERN EUROPE

Hungary	13.3
Ukraine	13.3
Bulgaria	13.2
Byelorussia S.S.R.	13.2
Czechoslovakia	13.2
German Democratic Republic	13.2
Poland	13.2
USSR	13.2
Romaina	10.1
Yugoslavia	8.8
Albania	3.9
Group Average	12.1

UN VOTING RECORD
39th GENERAL ASSEMBLY

ALL UNGA PLENARY VOTES
Percent Coincidence
with U.S. Votes (Yes/No)

AMERICAS

Canada	71.2
Dominica	63.2
Grenada	60.0
St. Christopher & Nevis	45.5
Belize	39.1
St. Lucia	35.8
Paraguay	35.5
St. Vincent	34.8
Guatemala	32.5
Uruguay	30.5
El Salvador	29.8
Chile	28.9
Honduras	28.5
Dominican Republic	27.2
Costa Rica	26.0
Ecuador	25.5
Colombia	25.4
Haiti	24.3
Panama	22.0
Bolivia	19.7
Antigua & Barbuda	18.9
Bahamas	17.2
Peru	16.9
Barbados	16.4
Jamaica	16.4
Brazil	14.8
Venezuela	13.9
Argentina	13.5
Trinidad & Tobago	13.4
Suriname	12.2
Guyana	11.0
Mexico	9.0
Nicaragua	6.8
Cuba	4.1
GROUP AVERAGE	23.2

WESTERN EUROPE

United Kingdom	82.1
Federal Rep. Germany	80.0
Belgium	76.6
Luxembourg	76.0
Netherlands	74.5
Italy	72.8
France	72.1
Iceland	60.4
Norway	59.6
Denmark	58.1
Portugal	56.2
Ireland	47.6
Spain	47.6
Sweden	41.9
Finland	39.4
Austria	38.7
Turkey	35.0
Greece	27.6
Malta	19.0
GROUP AVERAGE	55.4

No Affiliation

Israel	88.5

ARAB GROUP

Morocco	20.1
Somalia	14.1
Egypt	12.5
Djibouti	12.3
Mauritania	11.8
Sudan	11.6
Lebanon	11.5
Saudi Arabia	11.2
Oman	11.1
Jordan	11.0
Tunisia	10.8
United Arab Emirates	9.9
Kuwait	9.4
Bahrain	9.3
Qatar	9.3
Iraq	8.5
North Yemen	8.0
Libya	5.4
Syria	4.9
South Yemen	4.8
Algeria	4.3
GROUP AVERAGE	10.0

ASIA AND PACIFIC

Japan	70.9
Australia	62.4
New Zealand	60.6
Solomon Islands	50.0
Samoa	29.5
Fiji	25.9
Papua New Guinea	20.9
Singapore	20.2
Philippines	19.2
Sri Lanka	17.7
Burma	15.9
Kampuchea	15.0
Thailand	14.5
Bangladesh	14.3
Nepal	14.0
Pakistan	12.7
Indonesia	12.6
Mongolia	12.6
Brunei Darussalem	12.4
Malaysia	12.1
Lebanon	11.5
Bhutan	11.2
Saudi Arabia	11.2
China	11.1
Jordan	11.1
Oman	11.1
Cyprus	10.2
Maldives	10.1
United Arab Emirates	9.9
Kuwait	9.4
Bahrain	9.3
Qatar	9.3
Iraq	8.5
North Yemen	8.0
Iran	7.1
Vanuatu	6.8
India	6.5
Afghanistan	5.0
Laos	4.9
Syria	4.9
Vietnam	4.9
South Yemen	4.8
GROUP AVERAGE	14.9

Key Votes:

Of course, not all the issues on which votes are taken in the United Nations are important to all countries. Not all the issues are important to the United States, even though we are a world power. Naturally, the United States, like other nations, is most concerned with issues that directly touch our national interest or involve a widely held value.

To the end of maximizing support for U.S. positions on such issues, U.S. Representatives seek:

(1) to anticipate and identify such issues well in advance of the General Assembly;

(2) to communicate our concern to friendly and neutral nations;

(3) to inform them of the facts surrounding the issue;

(4) to solicit support and help in dealing with these issues in the upcoming General Assembly.

In analyzing the voting records of countries with response to U.S. values and interest, special weight should be given to the ten Key Votes.

The level of coincidence between the U.S. and others on all votes reflects the extent to which the U.S. and the other nations share objectives and values in the world arena, but it cannot legitimately be regarded as reflecting the level of support for the U.S., any more than coincidence can be legitimately regarded as reflecting support for the Soviet Union.

The only votes that can legitimately be read as a measure of support for the United States are those which we identified as important to us, and on which we lobbied other nations.

The key votes for the Thirty Ninth General Assembly were:

(1) The challenge to Israel's credentials, which has become the annual climax of an effort to bar Israel's participation in U.N. bodies. This effort is a clear violation of the principle of universality enshrined in the Charter.

(2) The resolution calling for withdrawal of foreign forces from Afghanistan.

(3) The resolution calling for withdrawal of foreign forces from Kampuchea.

(4) A U.S. sponsored resolution on chemical and bacteriological weapons,

(5) A U.S. sponsored amendment to delete criticism or mention of the United States from a resolution on military activities,

(6) A U.S. motion to declare a hostile Middle East resolution an "important question," which would require a two-thirds majority to carry,

(7) A Nigerian "gag-rule" that sought to block consideration of U.S. amendments to a resolution on apartheid,

(8) A resolution on human rights in El Salvador requesting an end to foreign military assistance,

(9) A resolution to authorize construction of a new seventy three million dollar U.N. conference center in Ethiopia,

(10) A U.S. resolution on the Middle East that sought to delete criticism of U.S. policy.

These key votes measured issues which were important to the United States and on which member states were sharply divided, just how divided is reflected in the fact that the Soviet Union voted with the U.S. 0 of 10 times, while the United Kingdom and Israel voted with us 9 of 10 times.

Not only did the U.S. achieve the desired outcome on most of these votes, the margin by which most of these votes was won was increased over the previous year.

Ten Key Issues by Major Bloc: Coincidence of voting with the U.S., yes/no only.

	1983	1984
NATO	81.0	88.0
Western Europe	75.3	85.1
American Republics	60.2	77.1
ASEAN	57.1	66.7
All Countries	43.4	55.0
Africa	33.0	45.9
Asia and Pacific	35.8	45.7
Non-Aligned	33.0	44.8
Islamic Conference	30.6	38.4
Arab League	24.8	28.0
Eastern Europe	5.9	5.2
Warsaw Pact	4.2	3.0

AFRICA

LIBERIA	7 (70%)	0 (0%)	3 (30%)	0
CHAD	7 (70%)	0 (0%)	3 (30%)	0
NIGER.	6 (60%)	0 (0%)	4 (40%)	0
IVORY CO	6 (60%)	1 (10%)	3 (30%)	0
CENT-AFR	6 (60%)	1 (10%)	3 (30%)	0
MAURITIS	6 (60%)	1 (10%)	3 (30%)	0
GABON	6 (60%)	1 (10%)	3 (30%)	0
MALAWI	5 (50%)	0 (0%)	5 (50%)	0
ZAIRE	4 (40%)	0 (0%)	6 (60%)	0
TOGO	5 (50%)	2 (20%)	3 (30%)	0
SENEGAL	4 (40%)	1 (10%)	5 (50%)	0
EQ-GUINE	2 (20%)	0 (0%)	8 (80%)	0
SIERRA L	3 (30%)	1 (10%)	6 (60%)	0
KENYA	4 (40%)	2 (20%)	4 (40%)	0
GAMBIA	5 (50%)	3 (30%)	2 (20%)	0
RWANDA	3 (30%)	2 (20%)	5 (50%)	0
CAMEROON	4 (40%)	3 (30%)	3 (30%)	0
BOTSWANA	4 (40%)	3 (30%)	3 (30%)	0
SWAZILAN	3 (30%)	2 (20%)	5 (50%)	0
LESOTHO	3 (30%)	2 (20%)	5 (50%)	0
SEYCHELL	1 (10%)	0 (0%)	9 (90%)	0
COMOROS	3 (30%)	3 (30%)	4 (40%)	0
MOROCCO	4 (40%)	4 (40%)	2 (20%)	0
SOMALIA	3 (30%)	3 (30%)	4 (40%)	0
EGYPT	4 (40%)	4 (40%)	2 (20%)	0
DJIBOUTI	3 (30%)	3 (30%)	4 (40%)	0
SAO TOME	1 (10%)	1 (10%)	8 (80%)	0
SUDAN	3 (30%)	4 (40%)	3 (30%)	0
G.BISSAU	0 (0%)	1 (10%)	9 (90%)	0
BURUNDI	3 (30%)	5 (50%)	2 (20%)	0
GUINEA	2 (20%)	4 (40%)	4 (40%)	0
ZAMBIA	4 (40%)	6 (60%)	0 (0%)	0
GHANA	3 (30%)	5 (50%)	2 (20%)	0
CAPE VER	0 (0%)	2 (20%)	8 (80%)	0
NIGERIA	3 (30%)	6 (60%)	1 (10%)	0
MALI	2 (20%)	5 (50%)	3 (30%)	0
BENIN	0 (0%)	3 (30%)	7 (70%)	0
MAURITAN	3 (30%)	7 (70%)	0 (0%)	0
TUNISIA	3 (30%)	7 (70%)	0 (0%)	0
ZIMBABWE	1 (10%)	5 (50%)	4 (40%)	0
TANZANIA	2 (20%)	6 (60%)	2 (20%)	0
UGANDA	1 (10%)	5 (50%)	4 (40%)	0
MADAGASC	0 (0%)	4 (40%)	6 (60%)	0
UP-VOLTA	1 (10%)	6 (60%)	3 (30%)	0
MOZAMBIQ	0 (0%)	5 (50%)	5 (50%)	0
CONGO	0 (0%)	7 (70%)	3 (30%)	0
ALGERIA	0 (0%)	7 (70%)	3 (30%)	0
ETHIOPIA	0 (0%)	8 (80%)	2 (20%)	0
ANGOLA	0 (0%)	8 (80%)	2 (20%)	0
LIBYA	0 (0%)	10 100%	0 (0%)	0
AVERAGE	2.9(29%)	3.4(34%)	3.8(38%)	

EASTERN EUROPE

ROMANIA	1 (10%)	0 (0%)	9 (90%)
YUGOSLAV	3 (30%)	6 (60%)	1 (10%)
ALBANIA	1 (10%)	6 (60%)	3 (30%)
HUNGARY	0 (0%)	9 (90%)	1 (10%)
BULGARIA	0 (0%)	10 100%	0 (0%)
UKRAINE	0 (0%)	10 100%	0 (0%)
BYELOSSR	0 (0%)	10 100%	0 (0%)
USSR	0 (0%)	10 100%	0 (0%)
GDR	0 (0%)	10 100%	0 (0%)
CZECHOSL	0 (0%)	10 100%	0 (0%)
POLAND	0 (0%)	10 100%	0 (0%)
AVERAGE	0.5(5%)	8.3(83%)	1.3(13%)

AMERICAS

URUGUAY	9 (90%)	0 (0%)	1 (10%)
GUATEMAL	8 (80%)	0 (0%)	2 (20%)
HAITI	8 (80%)	0 (0%)	2 (20%)
CANADA	8 (80%)	1 (10%)	1 (10%)
CHILE	8 (80%)	1 (10%)	1 (10%)
HONDURAS	8 (80%)	1 (10%)	1 (10%)
DOMINICA	6 (60%)	0 (0%)	4 (40%)
BELIZE	6 (60%)	0 (0%)	4 (40%)
PARAGUAY	7 (70%)	1 (10%)	2 (20%)
EL SALVA	6 (60%)	0 (0%)	4 (40%)
DOM REP	7 (70%)	1 (10%)	2 (20%)
ECUADOR	7 (70%)	1 (10%)	2 (20%)
ST.VINCE	6 (60%)	1 (10%)	3 (30%)
BOLIVIA	5 (50%)	0 (0%)	5 (50%)
BAHAMAS	6 (60%)	1 (10%)	3 (30%)
GRENADA	4 (40%)	0 (0%)	6 (60%)
ST.LUCIA	4 (40%)	0 (0%)	6 (60%)
COSTA RI	6 (60%)	2 (20%)	2 (20%)
COLOMBIA	6 (60%)	2 (20%)	2 (20%)
PANAMA	5 (50%)	1 (10%)	4 (40%)
VENEZUEL	5 (50%)	1 (10%)	4 (40%)
PERU	4 (40%)	1 (10%)	5 (50%)
BARBADOS	4 (40%)	1 (10%)	5 (50%)
BRAZIL	4 (40%)	1 (10%)	5 (50%)
SURINAM	3 (30%)	0 (0%)	7 (70%)
ARGENTI	5 (50%)	2 (20%)	3 (30%)
ANT/BARB	3 (30%)	1 (10%)	6 (60%)
JAMAICA	4 (40%)	2 (20%)	4 (40%)
TRIN/TOB	2 (20%)	1 (10%)	7 (70%)
ST.KITTS	0 (0%)	0 (0%)	10 100%
GUYANA	2 (20%)	5 (50%)	3 (30%)
MEXICO	2 (20%)	5 (50%)	3 (30%)
NICARAG	0 (0%)	7 (70%)	3 (30%)
CUBA	0 (0%)	10 100%	0 (0%)
AVERAGE	4.9(49%)	1.5(15%)	3.6(36%)

WESTERN EUROPE

UNITED K	9 (90%)	0 (0%)	1 (10%)
FRG	8 (80%)	0 (0%)	2 (20%)
NETHERL	9 (90%)	1 (10%)	0 (0%)
BELGIUM	8 (80%)	1 (10%)	1 (10%)
LUXEMBOU	8 (80%)	1 (10%)	1 (10%)
FRANCE	8 (80%)	1 (10%)	1 (10%)
ICELAND	8 (80%)	1 (10%)	1 (10%)
NORWAY	8 (80%)	1 (10%)	1 (10%)
DENMARK	8 (80%)	1 (10%)	1 (10%)
IRELAND	8 (80%)	1 (10%)	1 (10%)
ITALY	8 (80%)	2 (20%)	0 (0%)
PORTUGAL	8 (80%)	2 (20%)	0 (0%)
SPAIN	7 (70%)	1 (10%)	2 (20%)
SWEDEN	7 (70%)	2 (20%)	1 (10%)
AUSTRIA	7 (70%)	3 (30%)	0 (0%)
GREECE	6 (60%)	2 (20%)	2 (20%)
FINLAND	5 (50%)	2 (20%)	3 (30%)
MALTA	3 (30%)	0 (0%)	7 (70%)
TURKEY	4 (40%)	2 (20%)	4 (40%)
AVERAGE	7.2(72%)	1.3(13%)	1.5(15%)

ASIA & THE PACIFIC

JAPAN	8 (80%)	0 (0%)	2 (20%)
FIJI	8 (80%)	0 (0%)	2 (20%)
AUSTRAL	8 (80%)	1 (10%)	1 (10%)
NEW ZEAL	8 (80%)	1 (10%)	1 (10%)
PAPUA NG	6 (60%)	0 (0%)	4 (40%)
PHILIPP	7 (70%)	1 (10%)	2 (20%)
SAMOA	5 (50%)	0 (0%)	5 (50%)
SINGAPOR	6 (60%)	1 (10%)	3 (30%)
NEPAL	5 (50%)	0 (0%)	5 (50%)
SOLOMONS	4 (40%)	0 (0%)	6 (60%)
BURMA	5 (50%)	1 (10%)	4 (40%)
THAILAND	5 (50%)	1 (10%)	4 (40%)
KAMPUCHE	3 (30%)	0 (0%)	7 (70%)
SRI LANK	5 (50%)	2 (20%)	3 (30%)
BRUNEI	3 (30%)	2 (20%)	5 (50%)
VANUATU	1 (10%)	0 (0%)	9 (90%)
BANGLAD	4 (40%)	4 (40%)	2 (20%)
BHUTAN	3 (30%)	3 (30%)	4 (40%)
LEBANON	2 (20%)	3 (30%)	5 (50%)
INDONES	4 (40%)	5 (50%)	1 (10%)
MALAYSIA	3 (30%)	4 (40%)	3 (30%)
JORDAN	3 (30%)	4 (40%)	3 (30%)
CHINA	3 (30%)	4 (40%)	3 (30%)
MALDIVE	3 (30%)	4 (40%)	3 (30%)
OMAN	3 (30%)	4 (40%)	3 (30%)
CYPRUS	1 (10%)	2 (20%)	7 (70%)
PAKISTAN	3 (30%)	5 (50%)	2 (20%)
SAUDI AR	3 (30%)	6 (60%)	1 (10%)
QATAR	3 (30%)	6 (60%)	1 (10%)
BAHRAIN	3 (30%)	7 (70%)	0 (0%)
EMIRATES	3 (30%)	7 (70%)	0 (0%)
YEMEN.NO	1 (10%)	5 (50%)	4 (40%)
KUWAIT	2 (20%)	7 (70%)	1 (10%)
IRAN	2 (20%)	7 (70%)	1 (10%)
IRAQ	1 (10%)	6 (60%)	3 (30%)
INDIA	0 (0%)	5 (50%)	5 (50%)
SYRIA	0 (0%)	8 (80%)	2 (20%)
AFGHAN	0 (0%)	9 (90%)	1 (10%)
LAOS	0 (0%)	9 (90%)	1 (10%)
YEMEN.SO	0 (0%)	9 (90%)	1 (10%)
MONGOLIA	0 (0%)	10 100%	0 (0%)
VIET NAM	0 (0%)	10 100%	0 (0%)
AVERAGE	3.3(33%)	3.9(39%)	2.9(29%)

Name Calling

A second high priority of the U.S. was to delete from as many votes as possible clauses criticizing the United States by name.

This goal did not reflect hypersensitivity on the U.S. part. It was a response to an unpleasant habit that had developed over years of singling out the U.S. for criticism by name along with Israel and South Africa. Such habits matter.

When the Soviet Union is able to protect itself against being criticized by name -- no matter how flagrant its violations of the U.N. Charter -- it establishes itself as skillful, effective and influential -- a power to be reckoned with in what is regularly called the international community. When its client states and allies are able to escape criticism -- no matter how flagrantly they violate the United Nations Charter -- the Soviets are judged to be influential, useful friends. Soviet success and influence in the United Nations then become an additional incentive for sensitivity to Soviet views and for association with the Soviet bloc. Conversely, when the United States and its friends are subjected to harsh and often unfair attack, the U.S. appears to be devoid of influence, and associations with it become undesirable if not dangerous. U.N. votes affect both the image and the reality of power in the U.N. system and beyond it.

During the last General Assembly, the United States made a special effort to delete these discriminatory references and, within a span of three days, we requested 19 recorded votes in an effort to remove offending references to the U.S. and Israel. Of these votes, 17 dealt with South Africa, 11 of them with Namibia and 6 of them with apartheid. Two of the votes concerned the Middle East.

Because of the unique light which a country's stand on "selective name calling" sheds on its attitude towards the United States, we believe that these votes can properly be termed as votes "for" or "against" the United States.

The consequence of making clear our concern about these matters was a sharp decrease in the number of countries willing to vote for resolutions that attacked us by name. The following table reflects how the various groups in the General Assembly voted on deleting such attacks. This table shows, too, the determined effort of some groups to persist in singling out the U.S. for criticism.

Percent of Voting
with U.S. on motions to delete
Name Calling

	1983 (15)	1984 (20)
Israel	100.0	100.0
NATO	85.4	99.7
Western Europe	80.8	99.2
Americas	21.9	80.0
All States	19.9	48.3
Asia and Pacific	11.2	28.6
ASEAN	5.6	37.3
Africa	2.0	27.4
Non-Aligned	1.6	28.7
Islamic Conference	0.3	15.5
Arab Group	0.0	4.2
Eastern Europe	0.0	0.0
Warsaw Pact	0.0	0.0

Some Conclusions

There has been a discernable widely remarked improvement in the U.S. performance in the United Nations. Taking U.N. votes seriously makes a difference. When both Congress and the executive branch take the U.N. seriously, work on protecting our interests and report the results, other countries respond to our concern --- not all other countries, but a good many.

Sharply focused U.S. efforts with regard to specific issues of special concern to us such as name calling and key votes, generally resulted in higher levels of support from friends and, in some cases, from neutrals.

Similarly, specific U.S. efforts, with regard to restoration of the consensus rule on the African Economic Development Declaration and the Security Council elections, reaped positive benefits.

However, these positive results did not lead to an across-the-board enhancement of U.S. agreement with General Assembly resolutions. In fact, the level of coincidence between U.S. voting and some important groups went down, not up.

The apparent reasons for this are several. There was a significant increase in the number of votes which are traditionally difficult for the U.S. For instance, in 1983, there were 65 votes on Middle East questions, but, in 1984, the number increased to 82 votes. African issues saw a similar increase, rising from 51 votes last year to 97 votes this year. This general increase in the number of votes was also discernable in the General Assembly Plenary, where there were five more votes on Middle East issues and twenty-three more votes on African items.

The U.S. habit of acting as though another country's behavior toward our values and interests inside the U.N. was not relevant to their bilateral relationship did not produce constructive consequences either for the U.S. or the United Nations. The power structure that the United States and democracies permitted to develop in the U.N. produces some very strange outcomes. Inside the U.N., influence depends less on the strength of arguments and the merits of the cause than on the internal power structure: the blocs.

As the United States lets other countries know that their treatment of us in the United Nations affects our bilateral relations outside the United Nations, they treat our concerns and interests with greater respect.

Integrating our multilateral relations into our ongoing bilateral relations with other countries is the only way of introducing some sense of responsibility into nations' treatment of U.S. interests inside the U.N. It is not punitive or mean. It is responsible.

* * *

When power relations dominate, as they do in the U.N., then the content of resolutions is determined by these power relations. For example, a resolution on economic growth in a U.N. dominated by the Soviet bloc will have as its principal purpose not promoting growth, but attacking what they call capitalism, and especially the United States, as responsible for all the poverty in the world. A resolution on the Middle East will not have as its purpose winning peace in the Middle East. A resolution on the Middle East will have as its purpose establishing the position of the most powerful radical Arabs in the United Nations. A resolution on human rights in El Salvador will be less concerned with the objective facts of the situation than the blaming of the government of El Salvador for everything that is wrong there.

When the U.S. is weak and without influence in international arenas, the possibilities of promoting these values in those arenas are diminished. When the U.S. and the other democracies are influential, democratic values and institutions are strengthened as well. It is not enlightened or generous or responsible for the United States to be or seem to be indifferent to what transpires in great international fora. It is not generous or responsible to act as though we did not care about decisions in international bodies. It is our duty to try in all appropriate ways to strengthen freedom and human rights and to promote the values of the U.N. Charter -- the reason for our initial sponsorship of, and present membership in, the United Nations. Strong, the United States can help to build and preserve a world of independent countries inside the United Nations and outside. Weak, the United States cannot even protect itself much less its principles or the independence of other nations.

PREPARED STATEMENT OF GREGORY J. NEWELL

ASSISTANT SECRETARY OF STATE FOR INTERNATIONAL ORGANIZATION AFFAIRS

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

IT IS A PLEASURE TO PRESENT THE PRESIDENT'S FISCAL YEAR 1986 BUDGET REQUEST OF $196,211,000 FOR U.S. VOLUNTARY CONTRIBUTIONS TO DEVELOPMENT, HUMANITARIAN AND SCIENTIFIC ASSISTANCE PROGRAMS OF THE UNITED NATIONS AND THE ORGANIZATION OF AMERICAN STATES. U.S. SUPPORT FOR THESE PROGRAMS HELPS STABILIZE AND IMPROVE OUR EXISTING RELATIONSHIPS WITH OTHER MEMBER STATES AND BLUNT THE ATTACKS OF ADVERSARIES ON GENERAL POLITICAL AND ECONOMIC ISSUES WITHIN THESE MULTILATERAL ORGANIZATIONS.

BY SUPPORTING ECONOMIC GROWTH AND DEVELOPMENT IN THE INTERNATIONAL COMMUNITY, OUR FOREIGN ASSISTANCE PROGRAMS CONTRIBUTE TO OUR OWN PROSPERITY AND GIVE DEVELOPING COUNTRIES A GROWING STAKE IN THE INTERNATIONAL ECONOMY. MULTILATERAL PROGRAMS ENCOURAGE SELF-RELIANCE WITHIN THE DEVELOPING COUNTRIES BY DIRECTLY INVOLVING THEM IN THE PLANNING AND IMPLEMENTATION OF THE PROGRAMS AS A WHOLE, AS WELL AS OF THE PARTICULAR PROJECTS WHICH ARE CARRIED OUT WITHIN THEIR

BORDERS. THE UNDP ACTIVITIES ARE PARTICULARLY BENEFICIAL IN THAT THEY ENCOURAGE RECIPIENTS TO MAKE A COMPREHENSIVE ASSESSMENT OF THEIR DEVELOPMENT NEEDS AND HOW THEY SHOULD BE MET. APPROACHING DEVELOPMENT NEEDS IN SUCH A SYSTEMATIC FASHION INCREASES THE EFFECTIVENESS OF U.S. AND OTHER ASSISTANCE PROGRAMS.

THE PRIMARY PURPOSE OF UN SYSTEM AND OAS TECHNICAL ASSISTANCE IS TO DEVELOP HUMAN SKILLS, IMPART NEW AND APPROPRIATE TECHNOLOGY, AND DEVELOP AND IMPROVE INDIGENOUS INSTITUTIONS. THESE PROGRAMS HELP PROVIDE THE NECESSARY BASIS FOR EFFECTIVE IMPLEMENTATION OF THE LARGER DEVELOPMENT PROGRAMS OF BILATERAL DONORS AND MULTILATERAL DEVELOPMENT BANKS IN RECIPIENT COUNTRIES.

U.S. SUPPORT FOR UN SYSTEM AND OAS TECHNICAL COOPERATION INDICATES OUR WILLINGNESS TO PLAY OUR APPROPRIATE ROLE IN THE EVOLVING ECONOMIC AND SOCIAL INTERDEPENDENCE OF THE WORLD COMMUNITY, AND ENCOURAGES FULLER PARTICIPATION AND INCREASED SUPPORT FROM BOTH DEVELOPING AND DEVELOPED NATIONS. IT ALSO DEMONSTRATES OUR RESPONSIVENESS TO THE LEGITIMATE NEEDS OF DEVELOPING COUNTRIES, THEREBY HELPING TO IMPROVE NORTH/SOUTH RELATIONS. IT SERVES TO STRENGTHEN THE IMPORTANT LEADERSHIP ROLE OF THE UNITED STATES THROUGHOUT THE UN AND OAS SYSTEMS AND THE WORLD COMMUNITY.

FOR THE PAST SEVERAL YEARS, THE WORK OF THE BUREAU OF INTERNATIONAL ORGANIZATION AFFAIRS HAS BEEN GUIDED BY AN EMPHASIS ON SELECTED POLICY PRIORITIES. IN OUR EFFORTS TO FURTHER ENHANCE U.S. PARTICIPATION AND EFFECTIVENESS IN MULTILATERAL FORA, WE REFORMULATED THE BUREAU'S POLICY PRIORITIES LAST SUMMER.

OUR FIRST PRIORITY IS TO ENSURE EFFECTIVE AMERICAN

LEADERSHIP AND PARTICIPATION IN INTERNATIONAL ORGANIZATIONS. IN ORDER TO ACCOMPLISH THIS, IT IS ESSENTIAL TO FORMULATE POLICIES EARLY, TO ENUNCIATE THEM CLEARLY AND TO LOBBY EXTENSIVELY FOR THEM. MOVING FROM A DAMAGE LIMITATION MODE TO ONE OF POSITIVE LEADERSHIP REQUIRES THAT WE DO A BETTER JOB OF ORCHESTRATING OUR PARTICIPATION IN UN SYSTEM ACTIVITIES. WE MUST PUT MORE OF OUR IDEAS AND RESOLUTIONS ON THE TABLE, STRENGTHEN ALLIED COOPERATION FOR COMMON PURPOSES AND PROVIDE INDUCEMENTS TO ENCOURAGE MODERATE NONALIGNED COUNTRIES TO SPEAK OUT.

OUR SECOND PRIORITY IS TO SEEK RESPONSIBLE BUDGET AND MANAGEMENT PRACTICES. WE FULLY SUBSCRIBE TO, AND INDEED HELPED DRAFT, A POLICY STATEMENT ON INTERNATIONAL ORGANIZATION ASSESSED BUDGETS ADOPTED BY THE MEMBERS OF THE GENEVA GROUP -- WESTERN ORIENTED MEMBERS CONTRIBUTING ONE PERCENT OR MORE TO THE ASSESSED BUDGETS OF THE UN SPECIALIZED AGENCIES. THE GENEVA GROUP CONSULTATIVE LEVEL'S JOINT POLICY STATEMENT FOR THE SECOND HALF OF THE 1980S CALLS FOR A GENERAL COMMITMENT TO ZERO REAL GROWTH AND MAXIMUM ABSORPTION OF NONDISCRETIONARY COST INCREASES. OUR POLICY RECOGNIZES THE NEED FOR NEW PROGRAM INITIATIVES BUT REQUIRES THAT THEY BE FINANCED WITHIN EXISTING RESOURCE LEVELS. AS A LOGICAL FOLLOW-ON TO GENEVA GROUP EMPHASIS ON ZERO REAL GROWTH DURING THE FIRST HALF OF THE 1980S, WE ARE NOW PLACING EMPHASIS ON IMPROVED MANAGEMENT AND COST-EFFECTIVENESS IN THE DELIVERY OF PROGRAMS. WITHOUT REDUCING EFFORTS TO SEEK THE ELIMINATION OR REDUCTION OF COMPLETED, OBSOLETE AND INEFFECTIVE ACTIVITIES, WE BELIEVE THE TIME HAS COME FOR RENEWED SCRUTINY OF EXPENDITURES FOR ADMINISTRATIVE AND COMMON SERVICES. RESPONSIBLE BUDGET PRACTICES MUST BEGIN WITH MORE RESTRAINT IN THE LARGEST COMPONENT OF THE BUDGET, PERSONNEL COSTS, WHICH AMOUNTS TO OVER SEVENTY PERCENT OF UN SYSTEM EXPENDITURES. WE NOTE AND SHARE THE INCREASED CONCERN IN THE CONGRESS REGARDING UN AGENCY PERSONNEL COSTS.

OUR THIRD PRIORITY IS TO IMPROVE EVALUATION MECHANISMS AND CONDUCT ASSESSMENTS OF FIELD PRGRAMS. WE ACTIVELY SUPPORT THE WORK OF THE UN JOINT INSPECTION UNIT AND ARE SEEKING TO STRENGTHEN ITS INFLUENCE THROUGHOUT THE UN SYSTEM. THE JIU IS THE ONLY INTERGOVERNMENTALLY CHOSEN BODY THAT IS INDEPENDENT OF THE SECRETARIATS, HAS INVESTIGATIVE POWERS THROUGHOUT THE WHOLE UN SYSTEM, AND MAKES ITS FINDINGS AND RECOMMENDATIONS PUBLICLY AVAILABLE TO MEMBER STATES. ITS CONTINUING ENCOURAGEMENT OF THE ESTABLISHMENT AND USE OF EVALUATION UNITS AND SYSTEMS, ITS RECOMMENDATIONS FOR TIGHTENING TRAVEL PROCEDURES, AND ITS CALL FOR MORE CONTROL OVER THE COSTS OF CONSULTANTS, ARE EXAMPLES OF JIU REPORTS AND RECOMMENDATIONS WHICH HAVE HELPED US TO FOCUS ON AREAS THAT NEED IMPROVEMENT.

IN ADDITION, WE HAVE LAUNCHED OUR OWN FIELD STUDY TO REVIEW THE EFFECTIVENESS OF UN SYSTEM AGENCIES IN DELIVERING ASSISTANCE OUT IN THE RECIPIENT COUNTRIES. AN IO-LED TEAM HAS VISITED SEVERAL WEST AFRICAN COUNTRIES TO ASSESS WORLD FOOD PROGRAM (WFP) FIELD ACTIVITIES. WE PLAN VISITS TO ADDITIONAL WFP PROJECTS IN EAST AFRICA AND IN CENTRAL AMERICA. WE WILL BE HAPPY TO SHARE WITH INTERESTED MEMBERS OF CONGRESS THE RESULTS OF OUR FIELD STUDIES AS THEY ARE COMPLETED.

OUR FOURTH PRIORITY CALLS FOR KEEPING EXTRANEOUS POLITICAL ISSUES OUT OF THE SPECIALIZED AGENCIES. WE ARE WORKING WITH CONFERENCE CHAIRMEN, SECRETARIATS AND KEY MEMBER STATES TO KEEP THE MEETINGS OF THE UN SPECIALIZED AGENCIES AND PROGRAMS FOCUSED ON THEIR ASSIGNED TECHNICAL SUBJECTS. WE MUST AND WILL CONTINUE TO MAKE IT CLEAR THAT CONTINUED ABUSE OF THE SYSTEM BY THE INCLUSION OF EXTRANEOUS POLITICAL ISSUES IS WRONG AND WILL LEAD TO ADVERSE CONSEQUENCES. THE SECRETARY OF STATE AND THE US CONGRESS HAVE MADE IT VERY CLEAR THAT THE US WOULD WITHDRAW ITS PARTICIPATION AND SUPPORT FROM ANY UN ORGANIZATION WHICH

ILLEGALLY DENIED ISRAEL'S RIGHT TO PARTICIPATE IN IT. THAT REMAINS FIRM US POLICY TODAY.

OUR FIFTH PRIORITY IS TO CONTINUE TO INCREASE THE ROLE OF THE PRIVATE SECTOR. WE WILL PROMOTE MULTILATERAL INITIATIVES THAT COMPLEMENT AND ENCOURAGE PRIVATE SECTOR EFFORTS TO ACHIEVE SOLUTIONS TO THE PROBLEMS OF DEVELOPMENT. THE WORLD IS COMING TO RECOGNIZE THAT SOCIALIST ECONOMIC SYSTEMS JUST DON'T WORK -- THERE IS A STEADY TURNING AWAY FROM MARXIST OR STATIST RHETORIC AND ECONOMIC MODELS TOWARD FREER AND MORE OPEN ECONOMIES. IN ORDER FOR DEVELOPMENT EFFORTS IN THE THIRD WORLD TO BE SUCCESSFUL, WE MUST ENLIST INCREASED PARTICIPATION BY THE PRIVATE SECTOR.

OUR SIXTH PRIORITY IS TO INCREASE U.S. NATIONALS IN INTERNATIONAL ORGANIZATIONS. WE MUST INSIST AT THE HIGHEST LEVEL THAT THE NUMBER OF AMERICANS EMPLOYED BY AN INTERNATIONAL ORGANIZATION FALLS WITHIN THE AGREED-UPON RANGE. WE MUST IDENTIFY AT AN EARLY STAGE UPCOMING POLICYMAKING VACANCIES AND RECRUIT AND PROMOTE AMERICANS TO FILL THESE POSITIONS. WE MUST INCREASE THE NUMBER OF AMERICANS THAT OCCUPY POSITIONS IN INTERNATIONAL ORGANIZATIONS AT JUNIOR LEVELS AND SEE THAT THEY ARE GIVEN OPPORTUNITIES TO MOVE UP WITHIN THOSE ORGANIZATIONS, CONSISTENT WITH OUR SUPPORT OF PROMOTION FROM WITHIN.

WITH REGARD TO THE SPECIFICS OF OUR REQUEST, THE TOTAL WE ARE REQUESTING RECOGNIZES THE NEED TO CONTAIN BUDGET GROWTH AND EXERCISE FISCAL RESTRAINT, WHILE, AT THE SAME TIME, MAINTAINING OUR LEADERSHIP ROLE IN DEVELOPMENT FORA. AT A TIME WHEN THIS ADMINISTRATION AND THE CONGRESS ARE COMMITTED TO BRINGING OUR BUDGET DEFICITS DOWN, WE CAN PROPOSE NO MORE THAN THE MINIMUM ESSENTIAL REQUIREMENTS TO SUPPORT OUR FOREIGN POLICY OBJECTIVES. THE U.S. CONTRIBUTIONS TO THESE AGENCIES MUST BE CONSIDERED IN RELATION TO ALL THE OTHER CLAIMS ON THE BUDGET

AND TO THE AMOUNT OF REVENUE WHICH THE GOVERNMENT WILL HAVE AVAILABLE. WHEN DOMESTIC PROGRAMS ARE SUBJECT TO UNAVOIDABLE BUDGETARY STRINGENCIES, WE CANNOT AFFORD TO EXEMPT FOREIGN ASSISTANCE PROGRAMS. WE CANNOT ASK THE CONGRESS TO PUT THE WELFARE OF FOREIGNERS ABOVE THAT OF OUR OWN CITIZENS.

THE UNITED STATES IS A STRONG SUPPORTER OF UNDP, UNICEF, AND UNEP. GIVEN THE BUDGETARY SITUATION CONFRONTING US, HOWEVER, WE SIMPLY COULD NOT REQUEST MORE FUNDS FOR THOSE ORGANIZATIONS THAN WE DID LAST YEAR. INDEED, OUR FISCAL YEAR 1986 REQUEST INCLUDES ONLY ONE INCREASE FOR THOSE ITEMS INCLUDED IN OUR FISCAL YEAR 1985 REQUEST: A $100 THOUSAND INCREASE FOR THE UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION'S INVESTMENT PROMOTION SERVICE IN NEW YORK. WITH THIS VIRTUAL STRAIGHTLINING AT LAST YEAR'S REQUEST LEVELS, WE HAVE BEEN ABLE TO MAKE ROOM FOR TWO NEW ITEMS OF SPECIAL INTEREST: $1.561 MILLION FOR THE UNITED NATIONS DEVELOPMENT PROGRAM'S TRUST FUND TO COMBAT HUNGER AND POVERTY IN AFRICA AND $2.75 MILLION FOR INTERNATIONAL CONVENTION AND SCIENTIFIC ORGANIZATION CONTRIBUTIONS. I WILL DISCUSS THESE IN MORE DETAIL LATER.

A CENTRAL AND LONG-STANDING THEME OF U.S. POLICY HAS BEEN TO SEEK TO STRENGTHEN THE UNITED NATIONS DEVELOPMENT PROGRAM AS THE PRIMARY SOURCE OF FUNDING AND OVERALL COORDINATION FOR TECHNICAL COOPERATION ACTIVITIES CONDUCTED BY UN SYSTEM AGENCIES AND PROGRAMS. THROUGH STRENGTHENING THE CAPABILITY OF THE UNDP TO PROMOTE THE NECESSARY COHERENCE, COORDINATION, AND EFFECTIVE MANAGEMENT OF UN TECHNICAL ASSISTANCE EFFORTS, WE BELIEVE THAT THE INTERESTS OF INDIVIDUAL COUNTRIES AND THE WORLD COMMUNITY WILL BE ADVANCED. $120 MILLION, OVER 60% OF OUR TOTAL REQUEST, IS FOR UNDP. THIS DEMONSTRATES OUR CONTINUED SUPPORT FOR UN SYSTEM DEVELOPMENT ASSISTANCE AND ENABLES US TO CONTINUE TO RESIST FUNDING SUCH ACTIVITIES

THROUGH THE ASSESSED BUDGETS OF THE UN AND THE SPECIALIZED AGENCIES. SUPPORT FOR UNDP EFFECTIVELY SERVES U.S. INTERESTS BY PROMOTING INTERNATIONAL STABILITY, AND HELPING TO CREATE AN EVNIRONMENT CONDUCIVE TO TRADE AND INVESTMENT OPPORTUNITIES FOR THE U.S. PRIVATE SECTOR AND TO ADOPTION OF PRIVATE ENTERPRISE ECONOMIC PRACTICES IN THE DEVELOPING WORLD. INCREASED AGRICULTURAL PRODUCTION AND RURAL DEVELOPMENT ARE AMONG THE U.S. PRIORITIES REFLECTED IN UNDP FINANCED PROGRAMMING.

THE SECOND LARGEST ITEM IN OUR REQUEST IS $27 MILLION FOR UNICEF, THIS WILL FURTHER U.S. POLITICAL AND HUMANITARIAN INTERESTS IN THE DEVELOPING COUNTRIES BY MOBILIZING ASSISTANCE FROM PUBLIC AND PRIVATE SOURCES THROUGHOUT THE WORLD FOR PROGRAMS BENEFITTING CHILDREN AND MOTHERS. AID PROGRAMS ARE REINFORCED BY UNICEF'S EFFORTS TO PROMOTE ORAL REHYDRATION THERAPY AND THE USE OF INFANT GROWTH CHARTS TO DETECT EARLY, OFTEN INVISIBLE SIGNS OF MALNUTRITION AND TO BRING ABOUT A "CHILD SURVIVAL REVOLUTION" IN DEVELOPING COUNTRIES. ANOTHER EXAMPLE OF UNICEF'S CURRENT WORK IS ITS EFFORT TO REDUCE INFANT MORTALITY AND MORBIDITY RAPIDLY BY PROMOTING THE USE OF NEW LOW-COST VACCINES WHICH DO NOT REQUIRE REFRIGERATION.

THE THIRD LARGEST ITEM IN OUR REQUEST IS $20.5 MILLION FOR THE IAEA. THE UNITED STATES HISTORICALLY HAS BEEN A SOURCE OF STRONG SUPPORT FOR THE IAEA AND ITS SAFEGUARDS SYSTEM, WHICH SERVES CRITICAL U.S. SECURITY AND NON-PROLIFERATION INTERESTS. THESE FUNDS WILL BE USED TO HELP THE IAEA IMPROVE EXISTING SAFEGUARDS TECHNIQUES WITH EMPHASIS ON PLUTONIUM HANDLING FACILITIES, REPROCESSING AND HEAVY WATER FACILITIES. U.S. ASSISTANCE TO THE IAEA TECHNICAL COOPERATION PROGRAM WILL BE IN THE FORM OF EQUIPMENT, SERVICES OF U.S. EXPERTS, AND FELLOWSHIPS AND TRAINING COURSES.

ALONG WITH OUR FISCAL YEAR 1986 REQUESTS, WE HAVE PROPOSED

SUPPLEMENTAL LEGISLATION WHICH WOULD REPROGRAM THE AMOUNT APPROPRIATED FOR THE INTERNATIONAL ORGANIZATIONS AND PROGRAMS (IO&P) ACCOUNT AS A WHOLE FOR FISCAL YEAR 1985 SO THAT OUR CONTRIBUTION TO IAEA CAN BE RESTORED TO THE ADMINISTRATION'S REQUEST LEVEL OF $20.5 MILLION. RECONSIDERATION OF THE DECISION BY CONGRESS LAST YEAR TO REDUCE THIS REQUEST IS URGENT, ESPECIALLY IN VIEW OF THE UPCOMING NPT REVIEW CONFERENCE.

U.S. POLICY SEEKS TO PRESERVE AND STRENGTHEN THE EFFECTIVENESS OF THE ORGANIZATION OF AMERICAN STATES AS A FORUM FOR DEALING WITH HEMISPHERIC ISSUES. OAS MEMBERS LOOK TO THE UNITED STATES FOR SUPPORT IN WHAT THEY CONSIDER TO BE THEIR PRIMARY CONCERN - TECHNICAL ASSISTANCE FOR DEVELOPMENT. OUR REQUEST OF $15.5 MILLION DEMONSTRATES THE CONTINUED U.S. COMMITMENT TO THE INTER-AMERICAN SYSTEM AND WILL INFLUENCE THE LEVEL OF SUPPORT WHICH THE U.S. CAN EXPECT FROM OTHER OAS MEMBERS ON ISSUES OF CONCERN TO US SUCH AS RESPECT FOR HUMAN RIGHTS AND PRESERVATION OF AN ENVIRONMENT CONDUCIVE TO FAIR TRADE AND PRIVATE INVESTMENT.

OUR CONTRIBUTION OF $3.0 MILLION TO THE UNITED NATIONS ENVIRONMENT PROGRAM WILL AID U.S. EFFORTS TO IMPROVE OUR OWN ENVIRONMENT AND IMPROVE THE COMPETITIVE STANCE OF U.S. BUSINESSES WHICH MUST MEET HIGHER DOMESTIC ENVIRONMENTAL STANDARDS. U.S. INTERESTS IN PROTECTING THE GLOBAL ENVIRONMENT AND PROMOTING SUSTAINABLE DEVELOPMENT ARE UNIQUELY SERVED BY UNEP. UNEP'S MULTILATERAL APPROACH PROMOTES COOPERATION IN REGIONAL PROBLEMS, SUCH AS MARINE POLLUTION AND DESERTIFICATION, AND ITS GLOBAL MANDATE ENABLES IT TO ADDRESS ISSUES SUCH AS CARBON DIOXIDE BUILDUP AND OZONE DEPLETION. THE FACT THAT THIS REQUEST IS BELOW THE AMOUNT ORIGINALLY APPROPRIATED FOR FY 1985 SHOULD NOT BE INTERPRETED AS DISINTEREST BY THE ADMINISTRATION IN UNEP AND INTERNATIONAL

ENVIRONMENT ACTIVITIES. RATHER, THE CUTBACK REFLECTS THE PRESSING NEED FOR BUDGET RESTRAINT, AS EXPLAINED EARLIER, AND THE FACT THAT THE U.S. SHARE OF CONTRIBUTIONS TO UNEP (33 PERCENT IN 1984) HAS BEEN SO DISPROPORTIONATE COMPARED TO THE U.S. SHARE OF CONTRIBUTIONS TO UNDP (23 PERCENT) AND UNICEF (28 PERCENT). WE BELIEVE IT IS TIME FOR OTHER DONORS TO CONTRIBUTE MORE.

THE WORLD METEOROLOGICAL ORGANIZATION'S VOLUNTARY COOPERATION PROGRAM ASSISTS LESS DEVELOPED COUNTRIES THROUGH PROVISION OF TRAINING AND EQUIPMENT FOR IMPROVING THEIR NATIONAL METEOROLOGICAL AND HYDROLOGICAL SERVICES. THE PARTICIPATION OF THESE COUNTRIES GREATLY INCREASES THE EFFECTIVENESS OF THE WORLD WEATHER WATCH WHICH PROVIDES THE UNITED STATES MUCH USEFUL ECONOMIC AND SCIENTIFIC DATA. OUR REQUEST INCLUDES $2.0 MILLION FOR THIS PROGRAM FOR FISCAL YEAR 1986.

THE UNITED NATIONS CAPITAL DEVELOPMENT FUND PROVIDES SEED CAPITAL, ON A GRANT BASIS, FOR SMALL DEVELOPMENT PROJECTS REQUIRING ONLY LOW TO MODERATE LEVEL TECHNOLOGY, WHICH, BECAUSE OF THEIR SIZE, MIGHT NOT ATTRACT FINANCING BY MULTILATERAL DEVELOPMENT BANKS. OUR REQUEST OF $2.0 MILLION WILL ENABLE THE FUND TO CONTINUE TO ASSIST IN PROJECTS FINANCED JOINTLY WITH BILATERAL AGENCIES AND OTHER MULTILATERAL INSTITUTIONS.

THE UN EDUCATIONAL AND TRAINING PROGRAM FOR SOUTHERN AFRICA IS DESIGNED TO PROVIDE STUDENTS FROM SOUTH AFRICA AND NAMIBIA WITH EDUCATION AND TRAINING OPPORTUNITIES DENIED THEM IN THEIR OWN COUNTRIES. THE OBJECTIVE IS TO ENABLE THESE YOUNG PEOPLE TO PLAY A FULL ROLE IN THEIR SOCIETIES AS THEY BECOME INDEPENDENT OR AS MAJORITY RULE IS ACHIEVED AND TO DEMONSTRATE OUR COMMITMENT TO THE PROCESS OF PEACEFUL TRANSITION IN SOUTHERN AFRICA. WE ARE REQUESTING $1.0 MILLION FOR THIS PROGRAM.

In 1986 the Convention on International Trade in Endangered Species (CITES) is expected to continue its role as a major contributor to international conservation and the primary international mechanism governing international trade in wildlife. CITES will continue work on major projects such as the investigation of legal and illegal trade in key species.

The United States has led in encouraging the UN to recognize the need to integrate women more fully into its programs. In particular, we have emphasized that women, constituting more than half the world's population, have a vital role to play in the economic development of their countries. Our fiscal year 1986 request of $500,000 for the UN Voluntary Fund for the Decade for Women is a tangible manifestation of our commitment to this cause and a reflection of our humanitarian concern for women in the least developed countries. As a major donor to the Fund, the United States has been able to exert considerable influence over its activities.

Promotion of private sector development is a major U.S. priority both in international organization affairs and in development assistance. The Investment Promotion Service is the clearest recognition by UNIDO of the importance of private investment capital in the industrial development process. The program stimulates the private sector in developing countries with a catalytic impact upon their domestic economies. The New York office provides a significant service to the U.S. private sector by providing information on investment opportunities in developing countries, which leads to increased markets for U.S. goods and services, and by assisting representatives from developing countries to establish contacts with the U.S. private sector. Our reguest includes $200,000 for this activity.

THE FIRST NEW ITEM INCLUDED IN THE ACCOUNT THIS YEAR IS A REQUEST FOR A ONE AND A HALF MILLION DOLLAR CONTRIBUTION TO THE UNDP TRUST FUND TO COMBAT HUNGER AND POVERTY IN AFRICA. THE UNITED STATES, TOGETHER WITH THE OTHER INDUSTRIALIZED COUNTRIES, IS DEEPLY CONCERNED ABOUT THE CURRENT ECONOMIC DISASTER IN MANY AFRICAN COUNTRIES. DROUGHT, FAMINE AND DISEASE HAVE REACHED DRAMATIC PROPORTIONS. IN RESPONSE, THE UNITED STATES AND OTHER OECD DONOR COUNTRIES HAVE BEEN GENEROUS IN PROVIDING UNPRECEDENTED AMOUNTS OF FOOD AID AND OTHER FORMS OF EMERGENCY ASSISTANCE. HOWEVER, FOOD GAPS REMAIN TO BE FILLED, AND LOGISTICAL COORDINATION NEEDS IMPROVEMENT SO THAT FOOD IS DELIVERED ON TIME TO TARGET POPULATIONS, MANY OF WHOM LIVE IN REMOTE AREAS WITH EXTRAORDINARILY DIFFICULT ACCESS. FROM THE BEGINNING OF THE CURRENT CRISIS, THE UN SECRETARY GENERAL, THE UN DEVELOPMENT PROGRAM AND OTHER UN AGENCIES HAVE PLAYED CONSTRUCTIVE ROLES IN COORDINATING FAMINE RELIEF AND FOCUSING WORLD ATTENTION ON FAMINE. IN DECEMBER, RECOGNIZING THAT MORE NEEDED TO BE DONE, THE UN SECRETARY GENERAL ESTABLISHED A SPECIAL OFFICE OF EMERGENCY OPERATIONS IN AFRICA (OEOA) UNDER THE DIRECTION OF UNDP ADMINISTRATOR BRADFORD MORSE (A FORMER MEMBER OF THIS HOUSE). THE ADMINISTRATOR'S MISSION IS TO ENSURE EFFECTIVE COORDINATION WITHIN THE UN OF EMERGENCY EFFORTS AND TO MOBILIZE ADDITIONAL AID FROM ALL POTENTIAL DONORS.

OUR CONTRIBUTION OF $1.561 MILLION TO THE UNDP TRUST FUND TO COMBAT HUNGER AND POVERTY IN AFRICA WILL BE EARMARKED FOR THE OEOA EFFORT INCLUDING IMPROVEMENT OF LOGISTICAL COORDINATION. CURRENTLY, THE U.S. IS PROVIDING OVER ONE-HALF OF THE EMERGENCY AID FOR DROUGHT-STRICKEN AFRICAN COUNTRIES. IT IS CLEARLY IN OUR INTEREST TO ENSURE THAT OTHER DONOR NATIONS DO THEIR SHARE AND THAT ALL RELIEF EFFORTS ARE EFFECTIVELY COORDINATED. A U.S. CONTRIBUTION TO THIS EFFORT WILL REPRESENT A SIGNIFICANT STEP TOWARD MEETING THESE CONCERNS

AND WILL ENCOURAGE OTHER DONORS TO MAKE SPECIAL EFFORTS TO ASSIST.

THE SECOND NEW ITEM INCLUDED IN THE ACCOUNT THIS YEAR IS RELATED TO THE U.S. WITHDRAWAL FROM UNESCO. WITH THE U.S. WITHDRAWAL, THE UNITED STATES NO LONGER CONTRIBUTES ITS SHARE OF COSTS FOR SOME SPECIFIC ACTIVITIES SUPPORTED DIRECTLY BY UNESCO WHICH SIGNIFICANTLY BENEFIT U.S. DOMESTIC INTERESTS. THE PROGRAMS PROPOSED FOR FUNDING UNDER THE RUBRIC, INTERNATIONAL CONVENTION AND SCIENTIFIC ORGANIZATION CONTRIBUTIONS (ICSOC), PROTECT THE MORE IMPORTANT, DIRECT BENEFITS TO AMERICAN SCIENTIFIC, EDUCATIONAL, CULTURAL AND BUSINESS COMMUNITIES FORMERLY DERIVED THROUGH U.S. MEMBERSHIP IN UNESCO AND RESPOND TO THE NEEDS OF U.S. CONSTITUTENCIES. ICSOC WILL FINANCE CONTINUED U.S. PARTICIPATION IN CRITICAL UNESCO ACTIVITIES WHICH WOULD OTHERWISE CEASE DUE TO OUR WITHDRAWAL, SUCH AS THE UNIVERSAL COPYRIGHT CONVENTION, THE INTERGOVERNMENTAL OCEANOGRAPHIC COMMISSION AND THE MAN AND THE BIOSPHERE PROGRAM.

IN SUMMARY, WE BELIEVE THIS REQUEST FOR THE INTERNATIONAL ORGANIZATIONS AND PROGRAMS ACCOUNT TAKES INTO CONSIDERATION THE NEED FOR BUDGETARY STRINGENCY YET PROTECTS OUR POLITICAL, ECONOMIC, AND SECURITY INTERESTS. WE HOPE THE CONGRESS AND YOUR COMMITTEE AGREE AND WILL SUPPORT THE FULL REQUEST.

ANSWERS TO QUESTIONS SUBMITTED TO MR. NEWELL

QUESTIONS SUBMITTED BY SENATOR KASTEN

U.S. PARTICIPATION IN INTERNATIONAL ORGANIZATIONS

Senator Kasten: In line with U.S. budget policy, many of the organizations' 1984-85 budgets had zero or low program growth levels. For the U.N. and some of the major U.N. Specialized Agencies, what are the levels of program growth proposed for the 1986-87 budget period?

Mr. Newell: Only three of the four major UN system agencies have issued their draft 1986-87 budgets. The World Health Organization's budget contains zero real growth, the Food and Agriculture Organization's budget contains 1.4 percent real growth and the International Labor Organization's budget contains 1.1 percent real growth on a net basis. The 1986-87 United Nations regular program budget will not be issued until sometime in early May.

Senator Kasten: How much longer is the zero-growth policy expected to be applied to the international organizations and what is the outlook for continued Western allies' support for the policy?

Mr. Newell: At its 1984 Consultative Level meeting, the Geneva Group (composed of Western-oriented donors contributing one percent or more toward the budgets of the Specialized Agencies and the IAEA), adopted a joint budget policy statment for the second half of the 1980s calling for a general commitment to zero real growth and maximum absorption of nondiscretionary cost increases. This policy was reaffirmed at the 1985 Consultative Level meeting.

STRENGTHENING INTERNAL EVALUATION

Senator Kasten: Hand-In-Hand with the call for zero program growth is the need to identify and eliminate obsolete and non-productive programs and to instill more effective and efficient management practices. Have the U.N. organizations made any recent progress of note in setting up or strengthening internal evaluation functions and processes?

Mr. Newell: During 1984, the United Nations implemented a program for the regular preparation of internal evaluation studies, each covering a different program within the medium-term plan. The evaluations are already scheduled, by topic, through 1992, and they will be given intergovernmental review on an annual basis by the intergovernmental Committee for Program and Coordination (CPC). In addition, the 39th General Assembly approved a recommendation by the CPC that the UN should broaden the scope of its program review by means of (a) self-evaluation studies by the Administrative Management Service (of the UN's Department of Administration and Management); (b) external evaluation, such as that undertaken by the Joint Inspection Unit; and (c) evaluations undertaken by Governments.

In early 1984 the Joint Inspection Unit completed a study of the International Maritime Organization (IMO) in which it noted that certain of IMO's evaluation activities could be usefully expanded. The IMO, in response, proposed to establish a small central evaluation unit, attached to the Office of the Secretary-General. The IMO Council approved this proposal and the unit came into being in the summer of 1984.

At the end of 1982 the UNDP Administrator proposed a series of improvements in UNDP's evaluation system, including the reestablishment of a central evaluation unit under his authority. Despite resistance by some developing countries (who did not wish resources diverted from country programs to evaluation), the Administrator determined to establish such a unit. The Governing Council in June 1983 took note with satisfaction of the decision, and a small Central Evaluation Office was formally established on October 1. During 1984 the Office's priority assignment was to review UNDP's existing evaluation system, instituting any necessary revisions. The Office also began to review samples of ongoing project evaluations, initiate thematic evaluations, develop training programs on the linkage between design of programs and evaluation, and assist governments who requested help in enhancing their own evaluation capacities.

Because of UNDP's preeminent position in the field of development cooperation, its evaluation system is a particularly important one, which should have positive benefits throughout the UN system.

UN SYSTEMS' MANAGEMENT IMPROVEMENTS

Senator Kasten: Have such systems produced or demonstrated any measurable results in the way of contributing to improvements of the organizations' programs or management functions?

Mr. Newell: Yes, an example is the United Nations which publishes biennially a list of those programs or activities which have been judged to be completed, obsolete or of lowest priority as a result of the internal evaluation process. For the 1984-85 budget period, 85 subprogram elements were so identified and eliminated from the program of activites. The U.S. has also noted and welcomed a trend in those agencies which execute United Nations Development Program-funded projects, to publish management audits which provide detailed discussions of the uses to which such funds were put, and any problems encountered. While these audit reports are not evaluations per se, and can not be a substitute for evaluation, they do provide Member States with much useful information on program performance. They also give the executing agency an added incentive to remedy any problems described.

Senator Kasten: Are evaluation results readily accessible to the United States and other members?

Mr. Newell: The availability of evaluation reports varies considerably by agency. Also, if the report focuses primarily on internal, management issues it is usually more difficult to obtain than one which critiques program performance. The U.S. is constantly striving to ease such restrictions, if any, on the availability of these reports, but we recognize there may be cases where confidentiality serves a purpose. It can be said however, that UN agencies are, in general, cooperative on this issue.

UN SYSTEMS' INTERNAL EVALUATION

Senator Kasten: What steps has the United States taken to promote better evaluation, both internal and external?

Mr. Newell: The United States remains a strong and vocal advocate for the establishment and use of evaluation mechanisms in the agencies of the UN system.

Due largely to U.S. efforts and persistence, the Joint Inspection Unit was established on a permanent basis in 1978 with evaluation specifically included in its mandate. We have vigorously supported the U.S. Inspector, Earl Sohm, who has taken the lead within the Unit in encouraging all the UN agencies to establish and improve internal evaluation mechanisms. In addition, we have supported the Unit in its ongoing program of reviews, evaluations, and inspections.

It is largely due to U.S. persistence that the concept of effective evaluation and the importance of its role in program planning has gained considerable acceptance, and UN agency evaluation activities have begun to move off the drawing board and into implementation. In order to encourage these activities, the U.S. regularly raises the issue at relevant meetings of the organizations of the UN system. However, because the U.S. is also determined to see such evaluation activities staffed only through re-deployment within existing personnel strength ceilings, overall progress has been limited.

With respect to external evaluation, the U.S. continues to seek, through consultations with like-minded states, ways to ensure that greater attention is paid by organizations and governing bodies to the recommendations contained in external evaluations, such as those produced by the Joint Inspection Unit. As mentioned previously, continuing emphasis is being placed on having the external auditors produce narrative statements including management recommendations as part of their audit reports.

EVALUATION OF UN PROGRAM PERFORMANCE

Senator Kasten: What means are available to the United States to unilaterally monitor and evaluate UN organizations' performance and the results of programs?

Mr. Newell: There are four ways which the United States uses to monitor and evaluate UN organizations' performance and the results of programs related to UN development assistance.

One way is for the U.S. Government to review and analyze UN evaluation documents. Our conclusions are then presented, along with those of other member states, during the scheduled discussion in the relevant UN organization meeting. On occasion, our conclusions have also been sent in written form to specific officials in the relevant organizations. We also draw on this material for meetings conducted outside the official UN framework, such as when donor members meet to discuss issues touching on the UN.

Another way is for the Department to review UN assistance programs by sending a questionnaire to all diplomatic posts in countries receiving UN development aid. The responses are part of our Combined Economic and Reporting Program (CERP). They provide a general review of the status of UN assistance programs and help identify issues meriting further attention.

We also ask our diplomatic posts from time to time for information about a specific UN agency or issue. These ad hoc requests draw on the expertise and local contacts of U.S. Government personnel posted in other countries who thus have the opportunity to observe UN operations in the field over a period of time.

Finally, the U.S. Government occasionally sends interagency teams to visit headquarters and field offices of selected UN agencies to conduct more-in-depth interviews and on-site observations of projects. Although we have talked informally about participation in joint evaluations with the UN, the Department has no current plans for such participation.

Senator Kasten: Can you identify any recent joint evaluations or studies of programs or projects of specific UN organizations? If so, how conclusive were the study's results in regard to problems identified and corrective actions needed?

Mr. Newell: The Department has recently completed, or is currently working on, a variety of studies concerning specific UN organizations.

In July 1983, one of our offices prepared an internal discussion paper, "The FAO Technical Cooperation Program: An Appraisal" based on documentation of the UN Food and Agriculture Organization (FAO) and over 70 telegrams from U.S. Embassies.

A questionnaire, resulting in responses from 78 U.S. diplomatic and AID missions, was the basis for an assessment of UNESCO's development program. This study was incorporated into the February 27, 1984, "U.S./UNESCO Policy Review," copies of which were sent to the Congress.

In 1984, AID's evaluation unit reviewed the project performance of the International Fund for Agricultural Development (IFAD). Six teams of development professionals visited 19 IFAD projects in all the regions in which the organization operates. While generally positive in its assessment of IFAD's effectiveness, the report notes some areas where IFAD could improve its performance, and we will endeavor to assist the institution in correcting the weaknesses identified in this report.

Two UN evaluations, including the 1983 Joint UN/UNDP/UNIDO Evaluation on Manufactures, as well as UN project documentation were used for a desk study of the development program of the UN Industrial Development Organization (UNIDO). This study was used by the U.S. delegation to the Fourth General Conference of UNIDO in 1984. The Department also sent a letter to UNDP strongly supporting a number of the "Manufactures" evaluation's recommendations. Information in the "Manufactures" study was also used by the Department in developing proposals for improving programming practices of the UNDP. These and other donor proposals were discussed at a recent donor conference and were subsequently provided to the UNDP Administrator.

We are completing a short internal study on FAO cooperation with the private sector, information for which has come from personal contacts, FAO documentation and 45 reports from U.S. diplomatic and AID missions.

The Department, in conjunction with AID and the U.S. Department of Agriculture, is currently conducting an assessment of the Joint UN/FAO World Food Program, using a combination of UN documents, field visits and a questionnaire to U.S. field missions. We are seeking here, as with studies and evaluations of other organizations, to ensure that U.S. contributions are being used in accordance with the purpose for which they were appropriated. It is too soon to comment on the preliminary results now emerging.

United Nations Industrial Development Organization (UNIDO)

Senator Kasten: UNIDO was set up in 1966 as an autonomous organization within the United Nations with its basic objective to promote and facilitate industrialization in the developing countries. In 1975 the United Nations endorsed a recommendation that UNIDO become a specialized agency with its own constitution and budget. On September 2, 1983, the US deposited its ratification of the new constitution with the Secretary of the UN. However, as late as February 1985, the transition still had not taken place. By 1983, the requisite number of countries had ratified UNIDO's new constitution. Why then, has the conversion been delayed for so long?

Mr. Newell: Even though 121 members have ratified the new constitution (41 more than is required for it to enter into force), the Soviet Union has not ratified and neither our friends and allies among the industrialized countries nor the developing countries want to initiate the conversion process without the Soviets, who contribute 12.22% of the UNIDO budget counting Byelorussia and the Ukraine. For their part, the western industrialized countries whose contributions, unlike our own, are not capped fear they will be asked to make up the loss of the Soviet contribution. For their part the developing countries do not want to see the UNIDO budget reduced by 12.22%.

We continue to urge that conversion take place as soon as possible and, quite frankly, do not understand why the Soviet ratification has been so delayed, especially in view of the General Assembly resolution adopted by consensus last December that called upon "those states that have not yet done so to ratify the constitution of the UNIDO without further delay."

Senator Kasten: What is the current status of UNIDO's transition and when is it expected to be consummated?

Mr. Newell: We had hoped that it might take place this year. The UNIDO secretariat even made arrangements to reserve the necessary conference facilities. We approached the Soviets in mid-February to ask about the status of ratification. They told us only that their deliberations were proceeding "in the direction of ratification." They explained that the issue was undergoing a thorough review in the foreign ministry legal department and would then have to go through the appropriate commissions of the Supreme Soviet. They declined, however, to comment on the timing of these actions.

Senator Kasten: What are the main advantages to the United States of UNIDO becoming a specialized agency?

Mr. Newell: The advantages remain those outlined in the President's message when he transmitted the UNIDO constitution to the Senate for its advice and consent. It would improve the position of the United States and other major donors in budget, program and assessment determinations. If they act together, they would be able to block decisions on the organization's program and budgets. In this respect the constitution is a precedent setting document. Secondly, the constitution provides a specific right of withdrawal if the US should ever determine that its interests were not being served by continued membership. Finally, it provides an opportunity to increase UNIDO's effectiveness in promoting economic development and reaffirms our commitment to the industrial development of the less developed countries.

Senator Kasten: By all accounts, one of UNIDO's more productive programs is the investment promotion service which operates through seven worldwide investment promotion centers, one of which is in New York. In 1983 the New York center reported it had promoted some $93 million in U.S. investment in developing countries. In view of the center's apparent benefit to increasing private sector investment in less developed countries -- an important U.S. development objective, what is the rationale for not increasing the level of U.S. financial support for the center?

Mr. Newell: We believe the New York Investment Promotion Service office does merit increased support for the reasons you have outlined. Consequently, we have proposed a voluntary contribution for FY 86 double that of our FY 85 contribution -- to $200,000 from $100,000. Total U.S. funding (AID, State and the U.S. support through the Caribbean Development Bank) in FY 1985 is $355,800.

Senator Kasten: What are the total annual operating costs for the New York center and who are the major funding sources?

Mr. Newell: The New York office's projected 1985 budget totals $818,000. In addition to the U.S., other major contributors are:

UNIDO itself ($162,000), UNDP ($45,000), the United Nations Industrial Development Fund ($146,300), and the World Bank ($108,700).

Senator Kasten: Have operations of the center ever been curtailed because of funding problems?

Mr. Newell: In 1980 the New York office was able to fund nine investment promotion officers from developing countries. That number fell to five and now has climbed back to seven. In addition, we believe that funding limitations are preventing the office from undertaking a more concentrated effort to place U.S. investment in Africa. Also, an inability to fund an upgrading of the office's computer capability is limiting its contact and follow up work with U.S. companies and other potential investors. We believe some of these problems might be alleviated if the office has a more assured source of funding to cover its fixed administrative and overhead expenses. As the committee may be aware, the New York office is the only UNIDO Investment Promotion Service office whose overhead expenses are not borne by the host government.

QUESTIONS SUBMITTED BY SENATOR LEAHY

UN Educational Training Program for Southern Africa (UNETPSA)

Senator Leahy:

AID's Congressional Presentation states that if revenues for UNETPSA continue to decline and educational costs continue to increase (the latter we can be reasonably certain of), the program will not be able to sustain past levels of awards.

What has happened to past recipients of awards from this program? How has their participation benefitted their native countries? What are some specific examples?

Mr. Newell:

No studies have been undertaken to evaluate the post-training experience of UNETPSA recipients or their impact on the home countries after the completion of their participation in the program.

Senator Leahy:

What specifically has the U.S. done to encourage other donor countries to increase their contributions to this program?

Mr Newell:

Since early in its participation in the program (1975), the U.S. has been the leading single contributor to UNETPSA. The U.S. continues to serve on the Advisory Committee of the Program and a significant proportion of the scholarship recipients study in the U.S. (30.27% in 1983-84). The U.S. has not specifically contacted other donors for the purpose of encouraging them to increase their contributions, however.

Senator Leahy:

Why has our contribution remained at $1 million for the past four years?

Mr. Newell:

The U.S. contribution of $1 million has enabled the program to support a constant number of scholarship holders from those countries (South Africa, Namibia) still covered by the program. (Scholarships to students from Zimbabwe are expected to end after FY 1986.) In the face of ever increasing demands on limited resources, the Administration believes that the U.S. contribution is appropriate.

Senator Leahy:

At a time when the Administration is advocating a policy of "constructive engagement" with South Africa, why aren't you increasing your support for this program?

Mr. Newell:

The Administration feels that the current level of contribution is adequate to demonstrate U.S. concern for constructive change in the region.

INTERNATIONAL ORGANIZATIONS

Senator Leahy: According to AID's Congressional Presentation, U.S. contributions to international organizations and programs will decrease from an estimated $358 million in FY 85 to $196 million in FY 86.

Will total contributions to international organizations and programs decrease, or will only our share decrease?

Mr. Newell: The U.S. does not contribute a predetermined share to these international organizations. The size of the contributions requested reflects our evaluation of the effectiveness of the organizations and programs, the extent to which they serve U.S. interests, and the Administration's overall fiscal policy. We believe that the request of $196.2 million is consistent with the Administration's overall restrictive fiscal policy and will provide the necessary basis for U.S. efforts to improve the effectiveness and influence the substantive direction of these important multilateral programs. Since these contributions are discretionary, we cannot predict the funding levels of other donors and whether or not total contributions will decrease.

Senator Leahy: Our contribution to UNICEF will decrease from $53 million in FY 85 to $27 million in FY 86.

Will total donor contributions to UNICEF decrease, or will only our share decrease?

Mr. Newell: Contributions to UNICEF are voluntary and we annot predict the funding levels of other donors nor the level total contributions.

Senator Leahy: Is the same true of the U.N. Development Fund (UNDP)?

Mr. Newell: Yes, the same applies to UNDP.

International Organizations

United Nations Environment Program, UNEP

Senator Leahy: Our contribution to the U.N. Environmental Program (UNEP) will decrease from $4,689 million to $3 million. Will total contributions to UNEP decrease, or will only our share decrease?

Mr. Newell: We do not contribute a predetermined "share" of UNEP's costs to its Voluntary Environment Fund. We contribute an amount based on our desire to support worthwhile UNEP program activities. Therefore, if we or any other country decrease our contributions, total contributions would decline by the same amount unless other countries voluntarily made up the difference.

Senator Leahy: Why has our contribution to UNEP decreased from $10 million in FY83 to $3 million in FY86?

Mr. Newell: The State Department believes that the U.S. contribution of $10 million to UNEP's Voluntary Fund is disproportionately high when compared to U.S. contributions to other U.N. organizations. The U.S. FY84 contribution to UNEP of $10 million represented 34% of total contributions to UNEP, compared, for example, to 23% for UNDP and 28% for UNICEF. Since FY83 the Administration has requested $3 million as the U.S. contribution to UNEP's Voluntary Fund. We continue to feel that $3 million is the appropriate U.S. contribution, and have not changed the amount requested from FY83 to the present. The reason for the change you referred to is that each year Congress has decided to fund UNEP at a level higher than the Administration requested.

Senator Leahy: What assurances do we have that other donor countries will increase their contributions as we decrease ours?

Mr. Newell: There is no assurance that any other country will increase its contribution as we decrease ours. Countries which feel that overall support of the environmental program is falling below the level which they feel is necessary to maintain minimum acceptable levels could come forward with increased contributions. However, as long as this is unnecessary due to the high level of U.S. funding, they will not do so. The Department has also suggested that UNEP seek other non-governmental sources of income from interested parties, and we understand that the UNEP Executive Director is now following through on that suggestion.

Senator Leahy: What will be the global environmental costs if they do not make up the difference?

Mr. Newell: It is impossible to respond with any certainty on possible future environmental effects of increased or decreased funding to UNEP or any other program. However, we feel that a $3 million U.S. contribution, along with the contributions of other interested countries is sufficient for UNEP to maintain programs which are necessary to fulfill its mandate of promoting worldwide environmental awareness. The Department feels that UNEP spends an excessively large share (approximately 30%) of its income on administrative overhead and continues to fund several programs of marginal utility or which are duplicated by other agencies. While we support the general thrust of UNEP programs in areas such as the International Register of Potentially Toxic Chemicals (IRPTC), the Action Plan to Combat Desertification, carbon dioxide build-up, ozone depletion, and Regional Seas, and recognize that UNEP's program management has improved in recent years, we feel that there is still room for significant reduction in these expenses.

Senator Leahy: Shouldn't the percentage of our contribution to UNEP bear a direct relationship to the percentage of the world's resources we consume?

Mr. Newell: Contributions to voluntary organizations are discretionary and not based on any outside criteria such as gross national product or the percentage consumption of the world's natural resources. Voluntary contributions are generally based on each individual country's interest in the programs of the organization in question and how those programs fit in with the policy objectives of the donor country. We believe it should remain that way.

INTERNATIONAL ORGANIZATIONS

Senator Leahy: According to AID's congressional presentation, the U.S. will not be contributing to a number of organizations and programs we have supported in the recent past, including:

World Food Program
International Fund for Agricultural Development
U.N. Torture Fund

Have we abandoned these programs? If so, why?

Mr. Newell: No, we have not abandoned these programs. The United States makes large contributions to WFP consisting of food commodities and transportation costs which are requested through the Department of Agriculture as part of the PL-480, Food for Peace Program. That is why we have not included a request for WFP in the International Organizations and Programs (IO&P) account.

Regarding the Administration's intent to request funding for IFAD in the FY 1986 Foreign Assistance Bill, that decision must await further progress in the replenishment negotiations. If the negotiations are finalized in the near future, the Administration may consider an appropriation request to begin payment of the U.S. pledge.

Negotiations on a second replenishment for IFAD have been protracted largely as a result of the issue of burden-sharing ratios between the OPEC and OECD donors.

The OECD nations believe that the OPEC donors should be held to their original promise of pledging contributions levels which are "as close as possible" to those of the OECD donors. For the U.S., this means a maintenance of current ratios at 42% OPEC - 58% OECD.

The OPEC donors have taken the position that pre-determined ratios should be rejected, arguing that their strained financial situation precludes an IFAD II agreement based on the previous concepts of OPEC-OECD burden-sharing.

After two years of debate, the OPEC donors are still unwilling to discuss absolute shares, but have said they would agree to aggregate levels that result in a 40% OPEC - 60% OECD burden-sharing ratio.

The next, and what many hope to be the last session of negotiations is scheduled for May 16-17. The U.S. has pledged to review its position on burden-sharing, but must have some indication of the OPEC contribution levels. As yet, such indications have not been forthcoming.

Concerning the UN Voluntary Fund for Victims of Torture, we decided that the Fund did not fit into our priorities for the FY 1986 request in view of existing budgetary constraints. Although the Fund is indeed a worthwhile project, it must compete for funds with many other worthwhile organizations and projects.

INTERNATIONAL ORGANIZATIONS

Senator Leahy: How does the amount of our total contributions to international organizations and programs compare to the economic benefits we get back in the form of contracts for equipment and services to American companies?

Mr. Newell: The economic benefits received compare quite favorably to our total contributions. Allow me to cite some examples. The U.S. economy benefits, directly and indirectly, from UNDP outlays in the form of contracts for equipment and services awarded to American firms and fellowships for study in American institutions. In 1983, the last year for which we have such figures, UNDP employed 823 U.S. citizen experts for its UNDP-assisted projects. Equipment ordered from U.S. firms for the execution of UNDP projects was valued at over $23 million. The United States received more such orders than any other country. Technical subcontracts worth over $13 million were awarded to U.S. firms due to UNDP-funded activities. The United States was first in this category. U.S. educational institutions provided training to 1,470 recipients of UNDP-funded fellowships. In this category, the United States was again first. Moreover, investment opportunities created or identified by UNDP activity and preferences for U.S. products and technology which results from UNDP's programs also benefit the U.S. economy. All these economic benefits compare to a U.S. contribution of $139 million to UNDP in 1983.

Much of OAS resources in 1983 was returned to the U.S.: (1) 76% ($69,813,000) of all assessments and voluntary contributions ($90,185,000) were spent in the U.S.; (2) one-half of all fellowship expenses were made in the U.S.; (3) U.S. citizens received 29% ($1,196,000) of all consultant contracts; and U.S. citizens received $5.2 million in salaries. The overwhelming presence of U.S. citizens and interests in OAS activities--staffing, procurement, contracts, fellowships, travel, etc.--provides unique opportunities for follow-up ties, orders for goods and services, and investment opportunities for the U.S. private sector.

Additionally, a large portion of UNICEF's expenditures are made in the U.S. For example, in 1983 when the USG voluntary contribution was $42.5 million, UNICEF spent $92.6 million in the United States, including $35.8 million for supplies, freight and services. This tends to stimulate future orders for American goods not just by UNICEF, but also by the developing countries where these goods are used.

KEY VOTE ACTIVITIES

Senator KASTEN. Jeane, thank you. I might just say to the audience and the press that we are duplicating the key vote and the summary parts of your statement, and hopefully, they will be available within the next 10 or 15 minutes so that we can look at the charts together.

I appreciate very much your testimony. As you know, this is the second report on U.N. voting practices. I am pleased also that you think that you are making progress, particularly with the 10 key votes. I think what that means is that Congress has gotten involved and is getting involved in the process and that we publicly stated that we are looking at these votes.

I might say that your testimony last year—and I am sure it would be the case with your testimony today and your report—was one of the most popular documents we had in our subcommittee. People came from a number of the embassies and also from a number of congressional offices in order to review the report.

FOREIGN AID AS LINK TO U.N. VOTING

One of the questions that has come up is whether or not we should do more in terms of specifically linking our foreign aid, either the security or economic assistance, with specific votes in the United Nations or with an overall pattern of voting behavior which is in opposition to our best interests.

Do you think that we should do more in terms of linking foreign aid with votes in the United Nations?

Ambassador KIRKPATRICK. I should say that my response to this question represents my personal opinion, which I think is shared by the top policy officers of the administration but has, in fact, not been arrived at in any formal sense or cleared through a policy process in the administration. Let me just give you my personal judgment after 4 years in the United Nations. The answer, quite simply, is yes, I think so.

The reason is that, in the United Nations, there are some very bad practices that have developed, for example, bloc voting in which nations very frequently do not decide how to vote on an issue either on the merits of the issue or after a calculation, a general, sober calculation of their own national interests. But their decision on the vote is more or less reflexive, depending on which geographical, cultural, or a real block they belong to.

Let me give you an example. In the resolutions to deny Israel, to expel Israel, we will say, to bar Israel's participation, it is almost a certain thing that all the members of the Arab bloc will vote for that resolution; well, most of them will vote for it. It is barely possible that someone might be absent.

BLOC VOTING

But the decision is a bloc decision. In some other kinds of resolutions on the Middle East, the Islamic Conference members, some 42 nations, will automatically reflexively vote yes, and a good many African States representing the African alliance with the Arabs will vote yes automatically as members of a bloc, not because they have calculated they have a national interest in the outside world for doing so, but because they are members of a bloc and the decision is made on the basis of bloc.

In the Security Council, even in the Security Council, there is a growing and very disturbing tendency for members of the nonaligned caucus to vote together as members of the nonaligned caucus, rather than to vote judiciously as single individuals representing single countries.

That pattern of bloc voting poses two problems for us: One is just a general problem that it doesn't lead to the most judicious kinds of decisions or even consideration. Two is a more specific national problem; it is that the United States is one of the two or three countries in the U.N. who is a member of no bloc, and so we are a permanent, tiny minority. We are like a splinter party in a party system.

What can we do to try to get fair treatment under these circumstances? The only thing we can do is to try to say to other nations, "Look here, we think that our bilateral relations in the world are of such a nature that you ought to give our positions at least fair consideration, fair hearings at the United Nations."

Most other countries expect that the countries with whom they have friendly relations in the world will also behave like friends in the United Nations. That doesn't mean voting with them always, but it does mean voting with them sometimes, and it does mean having relationships based on mutual concern.

The only way that we can communicate effectively through these patterns of bloc voting is to make clear that the way countries threaten us in the U.N. counts; that we regard the U.N. as important; that we regard the votes of countries in the U.N. as important; and that we regard them as part of our total relationship with a country.

One way to communicate that, obviously, is to systematically take those voting habits into account when we make other calculations about our relations with the country, including, of course, foreign assistance calculations.

EFFECT OF ANTI-U.S. VOTES ON AID PROGRAMS

Senator KASTEN. If we did take into consideration these votes, what would you think of just a cutoff of let's say voting below 20 percent with us, not necessarily that all aid would be cut off, but that somehow, if someone was voting against us 80 percent of the time and with us only 20 percent of the time, that there ought to be some overriding justification for us to provide aid to them?

You might argue that they had a reason to make those votes or that they were special friends or whatever; or despite the fact that they vote against us in a consistent pattern, that even if that is the case, we still should provide them with some kind of a way of not establishing an absolute fence, but of forcing us, meaning the State Department or whoever, to justify in a more meaningful way the contribution of U.S. taxpayer dollars to provide aid to these countries in spite of the fact that they vote against us so consistently.

There is nothing magic about the 20 percent; it could be 30, it could be 10. What do you think about that concept?

Ambassador KIRKPATRICK. I think it might be promising. I would have a question about whether a general figure like 20 percent or whatever based on plenary voting would be more appropriate, or whether it would be more appropriate to identify the 10 key votes, let's say, as a basis for such a requirement.

It might. But I believe that for many countries in the U.N., many countries in the world, really, we do a great deal for them; we do a lot for a lot of countries. It is very often the case that most of those countries can't do anything much for us because they are poor; because they are small and because they are not strategically located, and one of the few things in the world they could do for us, just as a friendly gesture, is make certain that they give friendly consideration to issues of vital concern to us in the United Nations.

I do believe that generally speaking, our friends ought to give friendly consideration to our vital interests. I do believe that it is appropriate to find legislative mechanisms that would encourage them to do so. Yes, I think that would be useful.

SECURITY COUNCIL RESOLUTION ON LEBANON

Senator KASTEN. One of the recent key votes was the very recent Security Council resolution on Lebanon, and it was interesting to us. If I remember correctly, there were 11 countries that voted against us. Those countries included: India, Peru, France, Egypt, and several other countries. We just added up the total U.S. dollars in aid, and I don't know if any of them would be below the 20-percent threshold or a 30-percent threshold or a 10-percent threshold, but I think your point is well taken that on one or two key votes, especially with the threat of terrorism and all the other things that surrounded that vote, that you might argue that just one vote alone, in certain cases, ought to trigger some kind of justification mechanism to say that despite this abhorrent behavior, we still will give them, in the case of some of these countries, the aid dollars that are being requested.

Ambassador KIRKPATRICK. May I comment on that?

It is interesting in that regard to note that India, for example, which you mentioned, voted with the United States not once on a key issue in the General Assembly last year, not once. Now, that is a fairly common pattern, in fact, for India. The total last year for India was 6 percent of plenary votes and zero among the 10 key votes. We regret that very much, let me say. India has a pattern of regularly voting on the other side from the United States, and I would have to say beyond that, a pattern of quite regularly voting on the same side as the Soviet Union on important issues.

That Security Council issue which you raise is particularly painful, of course, because, as you know, the United States was threatened in regard to that vote, our personnel in Lebanon were threatened with violence and murder if the United States voted against that resolution.

Four separate threatening messages were received to that effect in Lebanon. We had to take those seriously, because in September, at the time of the last resolution on Lebanon, such threats were received and, in fact, the annex at the American Embassy was bombed and some 12 people were killed. We made a very heartfelt argument to the Security Council that it was not just the United States that was being threatened there, but that it was the whole United Nations Security Council that was being threatened and whether they were trying to introduce violence as a participant in our deliberations.

We were very sorry, very sorry that the nations who voted for that resolution voted for that resolution. We also note with deep regret that most of those nations took no notice whatsoever of the threats of violence against Americans, I might say we regarded it as a dismal performance generally.

It should never have happened. We should not have had nine votes for that resolution, in which case there would never have been a need for a U.S. veto.

U.N. ATTACKS ON ISRAEL

Senator KASTEN. One issue which continues to take up the time of the U.N. system, not just the United Nations in New York, but all the various branches and groups around the world, seems to be attempts to attack Israel. You have successfully countered these attacks on numerous occasions, although they do continue.

Do you see any change? Do you see any change in the, you could almost say, the U.N. obsession about attacking Israel, or can we simply expect to see more and more of this in the future?

Ambassador KIRKPATRICK. I very much regret to say that I think we have to expect to see more such attacks and of comparable virulence.

We have been successful in turning back those attacks, but we have been successful only because the whole United States government, including both Houses of the Congress by overwhelming majorities and the President of the United States and the Secretary of State and all of us working on the U.N. system have been heavily mobilized to try to guarantee that Israel will be given the kind of fair treatment under the Charter that every nation deserves.

It is true that if anybody were to relax on this issue, the consequence would be the expulsion of Israel from the various bodies of the U.N. As you will recall, the effort has been made to expel Israel from virtually all or from a significant number of the independent agencies, including the IAEA, the International Telecommunications Union, as well as from the General Assembly and others.

It is very important to remain vigilant, very important that the United States maintain, with clarity, its position that in case Israel is denied participation in a U.N. body, we will also withdraw ourselves and withhold our own participation.

I do believe it is important, in such a case, that we will not restore any funds that we have withheld, because otherwise, we, in fact, remove the effect of this sanction.

Senator KASTEN. I just want to reiterate that the subcommittee also feels that first of all, the efforts to hold back our contributions to organizations which expel or threaten to expel Israel is working and helping, but I also believe that we can make some improvements on that. Because as you point out, currently, if an organization refuses Israel membership or diminishes membership status, the U.S. contributions are held back. But once the situation is corrected, we then give that organization the money that has been held back.

Instead, I believe, and I think that you do also, that we should keep the proportionate share of U.S. funds which have been held back during that period permanently from the organization that mistreated Israel.

I am going to offer that legislation as either part of the authorizing legislation or the appropriating legislation or both. Because in effect, we have kind of a weak tool right now that needs, in my view, to be strengthened.

Do you agree with that approach?

Ambassador KIRKPATRICK. Yes, I do, Senator.

U.N. SPENDING PRACTICES

Senator KASTEN. The Congress continues to be concerned over the lavish way in which the United Nations spends money. One of the more recent examples is the so-called cost-of-living adjustment which factored in costs associated with a high lifestyle. I guess they decided that the labor statistics used to calculate the COLA were for common laboring people, but not for people such as those at the United Nations. Therefore, they had to make an adjustment.

As you know, this was altered in Congress by passing an amendment, which I authored, which held back the U.S. funds for that particular so-called cost-of-living increase.

What has been the result of our efforts in that action?

Ambassador KIRKPATRICK. The result has been a very positive one. The decision was made in the Fifth Committee, during the last General Assembly, to withhold the second half of that 9.6 percent promised raise. As you know, the salary levels are already a good deal higher than the salary levels of any member government or certainly almost any member government in the world, including the United States and the Soviet Union.

So I count that effort as very successful, Senator Kasten.

CONSTRUCTION OF CONFERENCE CENTER IN ETHIOPIA

Senator KASTEN. More recently, the General Assembly approved the construction, and you referred to it in your testimony today, of the $73 million conference center in Ethiopia, at a time when millions of Ethiopians are suffering from severe drought and also within a time of budget constraints within the United Nations. I am convinced that the only way we can constrain budget growth is to institute some kind of a voting procedure in the United Nations, at least with respect to some budgetary matters, maybe all budgetary matters, that weights such votes according to the amount of funds that are being contributed to the United Nations by the member countries.

What is your view on that specific suggestion whereby, in certain kinds of budgetary matters, maybe over a given threshold, that the financial contributions to the institution be weighted. If my memory is correct, you can reach a majority of votes in the United Nations and still not get to 1 percent of the total assessed contributions to United Nations.

Ambassador KIRKPATRICK. Right. Of course, what that means is that a majority of members of the General Assembly can vote to increase spending without incurring any added costs to their own government whatsoever. That creates a situation which has existed now for quite a long time in which the countries which pay the lion's share of all funding, 85 to 90 percent of the budget, regularly vote against the budget, and the countries who vote for the budget and bring about its adoption pay a very small share.

It is a recipe for fiscal irresponsibility, an absolute recipe for fiscal irresponsibility. It is very difficult to know how to introduce responsibility into that situation, because the same majority that can increase the budget without any risk to themselves can also prevent any change in formula for voting in relationship to the budget.

So it is a kind of double line situation.

U.N.-APPROVED HOUSING ALLOWANCES

Senator KASTEN. I think that is something that the Congress will be looking at. There might be some way that we, through our appropriations process, might be able to establish certain guidelines. I am told the Executive Director of the Economic Commission for Africa, which is located in Ethiopia, receives a free house provided by the Ethiopian Government. I further understand that nonetheless, he receives his full housing allowance from the United Nations as part of his salary.

Is it proper for a United Nations official to receive a housing allowance when he is being provided a free house?

Ambassador KIRKPATRICK. I shouldn't think so. As you know, a good many fiscal irregularities have been uncovered in recent years with regard to double-dipping of various kinds in U.N. practices. I think publicity is probably one of the best antidotes to that.

I hope very much that the Secretariat, having this case called to their attention, will take appropriate action.

Senator KASTEN. I would hope that, first of all, you would call it to their attention, and I would also tell you that we will call it to their attention.

UNRWA AND UNHCR

I wanted to ask a couple of specific questions about UNRWA, which was created, really, as a temporary response to a specific problem. It has now been in existence for over 35 years, requiring increasing U.S. assistance each year. Do you believe that UNRWA best serves the interests of the United States and of the Palestinians themselves? How effectively does it deliver those services which it is mandated to deliver? Why do we continue to support it? What is the rationale for the continued support by the United Nations?

Ambassador KIRKPATRICK. The rationale is, of course, that this is a miserable refugee population which the United Nations assumed a certain kind of responsibility for at the time of the founding of the State of Israel, in which the United Nations played a very key role. That was nearly 40 years ago, and the response, the rationale, was a humanitarian one. It was a humanitarian one like the rationale for the United Nations High Commission on Refugees Program, UNHCR, which takes care of over 12 million refugees annually, not including the Palestinian refugees paid for by UNRWA.

UNRWA developed relations with the Palestinian refugees as a separate and distinct organization with separate and distinct practices from those of the UNHCR. There are some very interesting differences between the policies of UNHCR and the costs of UNHCR on the one hand, which UNHCR applies to all other refugee populations in the world, and the UNRWA policies and costs on the other.

The UNHCR seeks to encourage refugee populations to seek return to their country of origin, if possible—never forcibly; or to seek permanent residence in some other country if it is not possible to return to their country of origin. It seeks to make a refugee population self-sustaining. It encourages them to undertake work in the camps to become self-sustaining, and to undertake work outside the camps.

In other words, UNHCR seeks regularly to transform refugees from the status of refugee back to the status of full citizens, of permanent citizens of either their original country or some country where they have resettled.

They think it is unhealthy and demoralizing for people to remain permanently in refugee status.

UNRWA has taken the position that the refuges status of the Palestinians should be preserved until there is some sort of collective solution to their problems, like a Palestinian homeland. The result of that policy has been that we have a large population with a permanent refugee status. Right now, there is a cost crunch in UNRWA, which results from the fact that the children of refugees, now a second generation of refugees, are reaching school age, and they have put a heavy financial load on all of the facilities in the camps.

An effort was made, for example, in the case of the Palestinian refugees in Lebanon, to reassemble them into camps as soon as possible after the camps had been dispersed in the period of war. The costs of UNRWA are much higher than UNHCR costs, and UNRWA, unlike UNHCR, does not encourage employment outside of the camps or self-sustaining activities inside the camps.

Another very disturbing factor about UNRWA, of course, was the discovery that they were serving, in fact, for recruitment of PLO fighters. Remember in the case of the Siblin camps, it was found that high school diplomas were only awarded to students if they were also engaged in or would enroll in PLO military training. I think two things. I think some real progress has been made on these abuses.

The Congress acted in that case, the administration acted, and the UNRWA administration acted. Some much more vigorous oversight activities, programs have been provided, now, than had been the case earlier.

Second, the new financial crunch has led the current administration of UNRWA to take much more stringent financial and economic measures. So I think some of the economic carelessness, almost, is being corrected.

But I do think it constitutes a long-range problem because the population, that refugee population is increasing very rapidly by reproduction, not by the influx of new refugees. The question becomes whether it is good for anyone, the host country; the refugee population themselves or the donor countries, of which the United States is many, many times the largest, to conceive this as a permanent refugee population and a permanent refugee problem.

SIBLIN INCIDENT

Senator KASTEN. What would you say the likelihood would be of a repeat of the incident or of an incident such as that which occurred in 1982 at Siblin?

Ambassador KIRKPATRICK. I do not think that is likely today. I believe that the administration of UNRWA, as well as our Government, has been greatly sensitized to this problem, and I do not think it is likely to be repeated.

It is not impossible, I might say, but it is not likely.

Senator KASTEN. *In terms of UNRWA's role, are you saying that* UNRWA's continuing functions depend directly on negotiating a resolution to the Arab-Israeli conflict?

Ambassador KIRKPATRICK. My understanding is that UNRWA is committed to the proposition that that refugee population will be maintained as refugees and not assimilated into any other population until such time as a permanent Palestinian homeland is provided. That is my understanding. That, I think, is a correct understanding.

I'm not quite certain how this policy or when this policy was ever adopted. Or whether, for example, it has ever been approved by U.S. Government explicitly. But I think that it is, in fact, the policy.

ARAB CONTRIBUTIONS TO U.N.

Senator KASTEN. In terms of contributions, at one time, if my memory is correct, we were contributing up to 60 percent of the budget for UNRWA. Now the United States contributes in the neighborhood of 45 to 47 percent.

What percent have the Arab countries contributed to UNRWA?

Ambassador KIRKPATRICK. Of course, that is a very unfortunate situation. The Arab countries contribute a very small, very, very small percent.

If we look at 1984, for example, the EEC countries contributed $22 million; Japan, $7 million; Switzerland, $4 million; Federal Republic, $3 million; Saudi Arabia, $3 million.

So that of that total budget, the Saudi Arabian contribution totaled $3 million.

The United States has tried, other donors have tried, the UNRWA administration has tried to encourage much more substantial contributions to UNRWA by the neighboring Arab countries. So far, they have taken the position that it was the responsibility of other countries in the world to support that population and deal with that problem.

The United States has contributed over $1.1 billion to UNRWA since its inception.

Senator KASTEN. What you are saying, then, is that the total Arab contribution is less than 10 percent?

Ambassador KIRKPATRICK. Right.

Senator KASTEN. Much less than 10 percent of that organization.

Ambassador KIRKPATRICK. Right. I think, in fact, Senator Kasten, that if you add our total contributions from last year, they were probably something over 40 percent of last year's budget.

IAEA

Senator KASTEN. Let me switch to another agency which the Congress has gotten involved in because of the IAEA's efforts to expel or deny full membership to Israel.

Do you share the concern which Congress, both the House and the Senate, has evidenced, over the politicization of IAEA in terms of the ongoing efforts to discuss and rediscuss and debate and redebate the whole idea of full membership and participation for Israel?

It just seems to go on and on and on and on, and we are really concerned in Congress about this overly political effort.

Do you share our concern?

Ambassador KIRKPATRICK. Oh, absolutely, and I think that it is perfectly clear that politicization of IAEA will destroy its capacities to perform its vitally important functions relating to nonproliferation and safeguarding of nuclear weapons and materials. That is a very important function in which we have a very large stake.

But it cannot be performed by an IAEA dominated by political considerations.

So the battle against politicization in IAEA is nothing more or less than the battle for the survival of an international agency to perform those terribly important functions.

CURRENT STATUS OF ISRAEL IN IAEA

Senator KASTEN. What is the status of Israel today in the IAEA?

Ambassador KIRKPATRICK. Today? Israel still is not permitted to receive technical assistance which has been withheld following Israel's attack in 1981 on the Osirack nuclear reactor in Iraq. Israel was restored to membership and to participation in IAEA, and that happened, by the way, as a direct result or consequence of the U.S. Government having withdrawn our own participation from IAEA. It created a very difficult problem for us, but Israel is still not fully sharing in the benefits of IAEA membership. That needs to be corrected.

I can provide you with specific information on this. At the 1984 General Conference, Israel was the object of a resolution which called for consideration of certain restrictions on Israeli participation, including withholding IAEA research contracts from Israel; refusing to hold scientific seminars in Israel; and not purchasing equipment from Israel.

These restrictions have not, so far, been actually imposed, but the suspension of technical assistance to Israel, which was instituted in 1981, continues still in effect, and the other restrictions are still under consideration.

MOZAMBIQUE

Senator KASTEN. Last spring and last summer, our subcommittee—and I think speaking also for me personally—received a good deal of pressure to approve an economic assistance package for Mozambique, despite the fact that that country is Marxist, and also its dismal voting record in the U.N.

In just going through these figures, last year, they voted with the United States 8.6 percent of the time. Now they have dropped to 3.9 percent. Following that there was a request from the administration not only for economic assistance this year, but for also military assistance.

It seems to me that the problem is not only the votes in the U.N., but why we continue to try to support Mozambique at all? What is the rationale for working to support Mozambique, and most particularly, for providing them with the request for military assistance this year?

Ambassador KIRKPATRICK. Senator Kasten, I might also add that Mozambique in key votes supported us zero out of 10 times.

Senator KASTEN. They are at zero.

Ambassador KIRKPATRICK. On key votes. So you could say their record in the U.N., at least, is consistent.

The rationale for the administration's request for economic assistance for Mozambique is that Mozambique has become and is becoming disillusioned with its relationship with the Soviet Union; that it has found that its relationship with the Soviet Union and its embracive socialism, so-called, has not led it to the kind of promised land that it expected, and that it is reconsidering its world orientation.

Now, obviously, we in the United States want to help Mozambique reconsider its orientation in the world. There is no question about that. Just as obviously, we want to do anything that is reasonable to illustrate the benefits of alliance with us rather than alliance with the Soviet Union.

There is another factor that needs to be taken into account in considering this, and that is, of course, the existence of a very strong anti-Communist insurgency movement in Mozambique and that, too, has provided a kind of incentive to the Government of Mozambique to try to seek assistance from wherever it can get assistance.

I think it is one of those difficult calls, and the administration has, I think, after consulting with Portugal and a number of other European countries, concluded that it was in our interest to provide some tangible evidence to Mozambique of the advantages of cooperation with our team, so to speak.

Senator KASTEN. I am suggesting that there is limited evidence that doesn't indicate a falling away or a gradual disillusionment by Mozambique. It indicates that they are more closely and studiously embracing the policies of the Soviet Union rather than moving away.

This is limited evidence, but in terms of the directions that they are moving from your narrow vantage point from this vantage point, I would say that their disillusionment is not in evidence. Maybe there are other things that they are doing that would change that.

INTERNATIONAL TERRORISTS

You and I, over the years, have talked about the U.N. support of terrorist organizations, especially the PLO and the Southwest African Peoples Organization [SWAPO]. The U.N. has taken steps which nearly elevates these terrorist organizations to membership, or we should say quasi-membership, I guess; a special status, certainly, in the United Nations.

We now have a new wrinkle with terrorist organizations in the Middle East, particularly in Lebanon, threatening death to Americans in that region if the United States should vote "wrong," as they say, on resolutions condemning Israel, and they are also taking these threats out to other countries, as well.

Given what these terrorist organizations have done over the years, and given most particularly what they are now doing, most recently, a car bomb killing, a dozen soldiers, I have no doubt that they may carry out or continue to carry out these kinds of threats.

What do you think should be the U.S. response to this continuing terrorist war on the United States and to the fact that these organizations continue to maintain their quasi-member status in the United Nations?

Ambassador KIRKPATRICK. Senator Kasten, as you know, in the U.N. Security Council, the PLO testifies under the rule governing member states' testimony and participation in the Security Council. There is a ritual in which each time the PLO desires to speak in a complaint, the President of the Security Council proposes that the PLO be admitted to speak under the provision governing member states' participation and testimony.

The United States votes against that and Britain and France abstain, and all the other members of the Security Council vote for it. So I mention that only to underscore the extent to which the PLO has achieved, in the U.N., the status, really full status, of a member state.

We have taken pains at the U.S. mission to try to ensure that our Government does not, in our functions as host country, accede to that categorization of PLO as a full member state, and we try to be alert to that.

What can we do? My own opinion is that if threats of violence and actual violence are introduced into the Security Council deliberations, in the General Assembly, and we are asked to deliberate and to vote under a gun, literally, then the whole process of discussion and debate is meaningless; it is simply not possible to carry out parliamentary, legislative, judicial activities under a gun. This is a question that the United Nations is going to have to face.

We tried. I tried personally to bring this to the attention of the Security Council and the Secretary General at the time of the threats against American personnel in Lebanon, and I must say that I was disappointed in the response of our colleagues and disappointed in the lack of a public response from the Secretary.

Senator KASTEN. I would like to say that the Congress of the United States is equally disappointed and maybe those words are too nice to use. The level of contributions, et cetera, from this Government justifies, I think, a very different response than either the leadership of the United Nations or the Security Council has provided with regard to this entire issue. I think it is an increasing concern to all of us.

UNESCO

The recent decision by the United States to withdraw from UNESCO highlighted the director of that agency, and I think a problem that we see in other U.N. agencies is where the man or woman in charge has become the issue.

Is there a limit to the number of terms that an individual can serve as a director of a U.N. agency? I don't know that there is. Do you think that there ought to be a limit of one or two terms that a person can serve as a director of a U.N. agency such as UNESCO?

Ambassador KIRKPATRICK. It is an interesting question. To my knowledge, there is no limit on terms for chief executives. I know there is none in UNESCO's case. There is none in the case of the U.N. Secretariat; the Secretary General does not have a limit on the number of terms he may serve.

I might point out that the current Secretary General, for whom I have very high both personal and professional regard, took the position at the time that he was selected that he would not accept more than one term because he believed that it would leave him freer of certain kinds of pressures, if everyone understood that he would not Stand for a second term. I think that constitutes his judgment, and I know from conversation with him his judgment about that has not changed in his 3 years as Secretary General.

Senator KASTEN. Frankly, that was behind my asking the question, so you are saying yes, it might be a good idea——

Ambassador KIRKPATRICK. It might be a good idea, yes.

Senator KASTEN. —to limit the consideration of term for these top officers and directors.

Last, what side effects have you seen as a result of our decision, the U.S. decision, to withdraw from UNESCO?

Ambassador KIRKPATRICK. The only observable side effect is the greater seriousness with which our friends and allies and other independent nations in UNESCO have demonstrated in their criticisms of UNESCO. I think that has been an entirely salutatory side effect.

There is a certain new sense of accountability or the possibility of accountability, anyway, has been introduced into the administration of UNESCO. That is a very positive and constructive side effect, as well.

It was a regrettable but necessary decision on the part of our Government. I believe it was necessary, especially if UNESCO is to be saved and restored to the constructive functions which it was established to perform.

HUMAN RIGHTS ABUSES IN SOVIET BLOC

Senator KASTEN. I believe that Americans, by nature, are concerned with human rights around the world, although I also believe that they have become quite cynical about the way such issues are treated in the United Nations. Human rights abuses by the Soviet Union, and I should say those in the Soviet camp, are almost never condemned, and even when there is action, those countries are not named.

You made reference earlier to the fact that we are looking at name-calling from our side, but even when some of these actions are condemned, those countries are not named in the resolution and in the U.N. debate.

How do you explain the reluctance at the United Nations to condemn Soviet and Soviet ally human rights abuses around the world?

Ambassador KIRKPATRICK. It is the power structure which I was describing. It certainly isn't a matter of the merits of the case. The power of the blocs and the overlapping membership of the blocs guarantees or has guaranteed until recently immunity to the Soviet Union and to her principal associates.

There has, for example, never been a human rights complaint against Cuba pushed inside a U.N. agency.

There are two very important firsts however, that occurred in the last 3 years: The most recent one is a strong indictment of Soviet human rights violations in Afghanistan, which is found in the report of the special representative of the Human Rights Commissioner, Felix Ermacora, and it was presented to the Human Rights Commission which just met in Geneva last month. That is a very important landmark; it is an excellent report.

Second, there was, of course, the first condemnation ever of an Eastern European, a Soviet bloc country, in a resolution adopted 2½ years ago which condemned the repression in Poland. Unfortunately, the mandate to investigate and report on those violations was not satisfactorily carried out. But it was a very major step forward.

So we have broken the sound barrier, so to speak, on the deafness of the United Nations to the plight of victims of human rights violations in the Soviet bloc.

SUBMITTED QUESTIONS

Senator KASTEN. There is obviously more to do, but that might be a first step. I want to thank you. First of all, there may be questions from other members of the subcommittee or from us in writing. We will submit those questions to you.

[CLERK'S NOTE.—Answers to questions submitted to Ambassador Kirkpatrick were not available in time for printing of this hearing document.]

CONCLUDING REMARKS

Senator KASTEN. I want to thank you, though, for your testimony here today; to wish you good luck in the private sector. I want you to know that you are going to be sorely missed. Your assistance to us on this subcommittee has been simply enormous. I want to thank you on behalf of myself and also the members of the subcommittee. We wish you well. We look forward to continuing to rely on your advice and your counsel.

SUBCOMMITTEE RECESS

This concludes this morning's hearings. The subcommittee stands in recess until 10 a.m. Wednesday, at which time we will receive testimony from public witnesses.

Thank you very much.

[Where upon, at 10:35 a.m., Monday, March 25, the subcommittee was recessed to reconvene at 10 a.m., Wednesday, March 27.]

FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1986

WEDNESDAY, MARCH 27, 1985

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10 a.m., in room S-126, the Capitol, Hon. Robert W. Kasten, Jr. (chairman) presiding.

Present: Senator Kasten.

NONDEPARTMENTAL WITNESSES

GEORGETOWN UNIVERSITY

STATEMENT OF WILLIAM L. GEORGE, S.J., GEORGETOWN UNIVERSITY

ACCOMPANIED BY HAROLD BRADLEY, S.J., GEORGETOWN UNIVERSITY

OPENING STATEMENT OF SENATOR KASTEN

Senator KASTEN. The subcommittee will come to order.

Today, our subcommittee will hear from public witnesses who have requested the opportunity to present their views on the fiscal year 1986 budget request.

First of all, I would like to welcome all of you here on behalf of the subcommittee. Once again this year, we have had quite a turnout. A large number of witnesses are going to be testifying this morning, and as a result, it is going to be necessary, as we have done in past years, to limit the amount of time for each witness. We are going to ask that you summarize your statements. The entire statement will be made part of the record. We will use the light system to allocate 10 minutes to each witness, and hopefully we will have time for one or two questions. If we are able to use less time, we will certainly appreciate it, remembering that your entire statement will made part of the record.

Our first witnesses this morning are Harold Bradley and William L. George from Georgetown University.

Father George.

Father GEORGE. Thank you, Mr. Chairman.

Father Bradley and I are both assistants to the president of Georgetown University, and we thank you for your support in the past and the opportunity to testify again. We want to briefly speak about three topics.

HEMISPHERIC MIGRATION PROJECT

The Hemispheric Migration Project is going to conclude its first portion in September. We have had 16 contracts awarded and 16 scholars reporting in. For the following year, in 1986, it is going to take about $800,000 to continue.

CENTRAL AMERICAN SCHOLARSHIP PROGRAM

The Central American Scholarship Program, which Father Bradley will address later, is interesting. We will have 45 students coming over in September. There will be 70 short-term students in the 2 years. It will cost about $12,000 per student, including transportation per man-year. So it is substantial savings.

UNIVERSITY VOLUNTEER INTERNSHIP PROGRAM

The University Volunteer Internship Program, which sends medical students abroad, will be continuing at a cost of $188,000, and we are looking toward AID and the United Nations for funds to support that. It involves also the University of the City of Buffalo and Minnesota.

With that, I would like to ask Father Bradley to quickly say something about the Central American Scholarship Program.

Senator KASTEN. Father Bradley.

CENTRAL AMERICAN SCHOLARSHIP PROGRAM

Father BRADLEY. Mr. Chairman, we started out with this program because we felt that there was room for innovation and cost-cutting in the training of foreign students in the United States. As you probably know, most of the agencies have felt that we couldn't do what we said we were going to do. In lieu of having a contract, or while we are waiting for a contract to carry this out, we have been exploring with community colleges in Texas, in Iowa, and in Wisconsin, to see if the community colleges think that they can do this training for the cost that we anticipate it can be done for.

It is very difficult to find out what the agencies are spending because from different people in the agencies you get different cost quotations. But we are convinced that we can come in, and I have been instructed to say, substantially lower than they are.

Senator KASTEN. I think you are right. We were talking about $25,000, weren't we, when we were talking about this the last time?

Father BRADLEY. Yes.

Senator KASTEN. You are now at less than half.

Father BRADLEY. We are coming in for $12,000. Let me say that I started out with the idea that the community colleges could do this first training more effectively than universities, and I had not even been to community colleges.

Last week I was out to Waukesha Technical Institute in Milwaukee, WI.

Senator KASTEN. You had to go there last week, so you could say it here this week. [Laughter.]

Father BRADLEY. It was recommended by the Community College Community.

They are willing to take these students and mainline them in their educational process within 6 weeks. I shouldn't say this about my own people, but no university in the country would even consider that.

I am convinced that, first of all, we are going to be able to cut the costs the way we told you we could and, second, we are going to be able to do innovative education. That is all I wanted to say about it.

Senator KASTEN. We discussed this last year, and obviously you have made great progress, and we are looking forward to working with you. The subcommittee will continue to work with you and support you. You have proved that you can cut an AID estimate in half, a little more than half, as I was just saying to Father George.

Father BRADLEY. "Substantially," Mr. Chairman. Let's use the word "substantially."

Senator KASTEN. We want to continue to work with you in this overall effort. I thank you, and I congratulate you on what you have done.

Father BRADLEY. We thank you for your support.

Father GEORGE. Thank you.

[The prepared statements of Father George and Father Bradley follow:]

JOINT PREPARED STATEMENT

REV. WILLIAM L. GEORGE, S.J.

SPECIAL ASSISTANT TO THE PRESIDENT OF GEORGETOWN UNIVERSITY

AND

REV. HAROLD BRADLEY, S.J.

SPECIAL ASSISTANT TO THE PRESIDENT OF GEORECTOWN UNIVERSITY

Mr. Chairman, Members of the Subcommittee:

We are Father William George and Father Harold Bradley, Special Assistants to the President of Georgetown University, and we want to thank you and the members of this Subcommittee for the opportunity to testify.

We would like to address three topics briefly: (1) the Hemispheric Migration Project; (2) the Central American Scholarship Program; and (3) the University Volunteer Internship Program.

The Hemispheric Migration Project, which stimulates and guides investigations of international migration and refugee flows within the Americas, is funded through September 1985 by the State Department's Bureau for Refugee Programs. We seek to continue this venture through a three-year extension at an estimated cost for Fiscal Year 1986 of $800,000. We believe that it is imperative that we continue to separate fact from fiction in the migration field, so that policy proceeds on the basis of added knowledge, not fear.

The Central American Scholarship Program, funded by the Agency for International Development, is a pilot project to provide an opportunity for disadvantaged students from Costa Rica, Guatemala, El Salvador, Honduras, Panama, and Belize to study at selected community colleges in the United States. The first group of approximately 45 students is expected to arrive in the United States in time for the fall semester of 1985. Initially, the participating institutions will be the Community College of El Paso, Texas, Kirkwood Community College in Cedar Rapids, Iowa, and the Technical Institute of Waukesha, Wisconsin. We anticipate that these students can be educated for significantly less per year than is possible in traditional programs. We look forward to seeing the program grow.

The University Volunteer Internship Program, which for the past several years, with private financing, has provided medical care to refugees in Thailand through teams of medical students from the consortium of Georgetown University, the State University of New York at Buffalo, and the University of Minnesota, has received a grant from the Bureau for Refugee Programs which will help continue the program for the current fiscal year. Funding at a level of $150,000 per year is necessary to continue the program and is being sought from various sources, such as the Agency for International Development and the appropriate agencies of the United Nations.

We would like to submit for the record written testimony on these three programs.

GEORGETOWN UNIVERSITY
P.O. BOX 2298
WASHINGTON, D.C. 20057

Hemispheric Migration Project

Oral Presentation

The Hemispheric Migration Project is a collaborative research endeavor of the Intergovernmental Committee for Migration and Georgetown University. It is funded through September 1985 by the State Department's Bureau for Refugee Programs. Underway for over a year, the HMP has successfully engaged 15 distinguished scholars throughout the Americas in policy-relevant research on the causes and consequences of international migration for countries of origin. The research projects were selected by a nine person committee of international experts whose decisions were based on the scholarly worth and policy potential of the individual projects. Among the topics being researched are the socio-economic impact of Central American refugees on countries of first asylum, and the consequences on development in the Caribbean of the emigration of skilled and semi-skilled workers.

A program for stimulating and guiding investigations of international migration and refugee flows within the Americas is thus in place which encompasses scholars and research centers throughout the hemisphere. We seek to continue this venture through a three-year extension of the Hemispheric Migration Project. Our estimated cost for FY '86 is $800,000; for FY '87, $700,000; and for the final year, FY '88, $650,000. At this point, we are looking to collaborate with another institution, such as Agency for International

Development, the Inter-American Development Bank, the World Bank or United Nations agencies. Cost-sharing possibilities will also be explored with other governments, private foundations, and educational institutions.

Four research priorities have been established based on a thorough review of the literature by project personnel and consultations with migration experts in the academic and policy communities.

Areas for targeted research are: 1) durable solutions for Central American refugees in the region; 2) the future of smallholding agriculture in the Caribbean Basin in the light of large-scale emigration; 3) the socio-economic impact and future contributions of return migration; and 4) adjustments in sending societies to a reduction in the market for immigrant labor in the United States.

The Hemispheric Migration Project has, and will continue to contribute to an informed policy process. As Congressman Fascell noted at a recent Georgetown conference, it is imperative that we continue to separate fact from fiction in the migration field, so that policy proceeds on the basis of added knowledge, not fear.

Hemispheric Migration Project
Statement for the Record

The Hemispheric Migration Project is a collaborative research endeavor of the Intergovernmental Committee for Migration and Georgetown University. It is funded through September 1985 by the State Department's Bureau for Refugee Programs. Underway for over a year, the HMP has successfully engaged distinguished scholars throughout the Americas in policy-relevant research on the causes and consequences of international migration for countries of origin.

One of the main purposes of the project has been to gain a thorough understanding of the forces that impel migrants to leave their own countries and that attract them to the U.S., in order to contribute to the formulation of a coherent and effective migration policy for the U.S. and the region. Knowing how migrants may be productively engaged in the development of their own countries can be an important step in stemming the increasingly spontaneous and illegal migration to the U.S. Thus, the project is of mutual benefit to the U.S. and the countries of origin.

The Project is currently supporting 15 studies on immigration and refugee flows within Latin America and the Caribbean. The studies were selected by a nine person committee comprised of international experts whose decisions were based on the scholarly worth and policy potential of the individual projects. Among the topics being researched are the socio-economic impact of Central American refugees on countries of first asylum, the consequences on development in the Caribbean of the emigration of skilled and semi-skilled workers, the social and economic adaptations in Colombia to reduced labor demand for immigrant labor within the Andean region; and modes of integration of returning migrants and exiles within the Southern Cone.

Five "State of the Arts" papers for Latin America, the Caribbean and North America are forthcoming in the Project's

Occasional Paper Series. Each paper reviews the available literature on immigration and refugees with an eye to demographic and socio-economic characteristics, trends and gaps in the research, and policy concerns that emerge from research findings.

The HMP strives to bring together members of the academic and policy communities to discuss areas of common concern. A recent conference at Georgetown University, in which research findings from three of the State of the Arts papers were presented, featured commentary by Representatives Fish and Fascell and Senator Simpson. As Congressman Fascell acknowledged at that time, it is imperative that we continue to separate fact from fiction so that the policy process may proceed on the basis of added knowledge, not fear.

Towards this end, Georgetown University will invite policy makers, practitioners and scholars to discuss the findings of the 15 research projects at a Hemispheric Conference to be held in Latin America in the fall of 1985.

A program for stimulating and guiding investigations of international migration and refugee flows within the Americas is thus in place which encompasses scholars and research centers throughout the hemisphere. We seek to continue this venture through a three-year extension of the Hemispheric Migration Project. We estimate the cost for FY '86 to be $800,000; the cost for FY '87 to be $700,000; and for the final year, FY '88, to be $650,000. At this time, Georgetown University plans to collaborate in the project with another institution, such as the Agency for International Development.

the Inter-American Development Bank, the World Bank or United Nations agencies. Also, we intend to explore the possibility of cost-sharing with other interested governments, private foundations and educational institutions, having been encouraged in this regard by the possible outside sponsorhip of one of the projects presented to the HMP this fiscal year.

Four research priorities have been established based on a thorough review of the literature by project personnel and consultations with migration experts in the academic and policy communities. Areas for targeted research are: 1) durable solutions for Central American refugees in the region; 2) the future of smallholding agriculture in the Caribbean Basin in the light of large-scale emigration; 3) the socio-economic impact and future contributions of return migration; and 4) adjustments in sending societies to a reduction in the market for immigrant labor in the United States.

Topic 1: Durable Solutions for Central American Refugees

Research on Central American refugee situations is scarce. Until now, studies have been merely descriptive--written as status reports for the refugee assistance agencies. Data on the refugee and displaced populations are rudimentary, varied in their reliability, and often biased. In general, the available reports provide no analysis of the socio-economic characteristics of the refugee populations and, thus, are not useful for the purpose of setting refugee policy, planning assistance levels, or seeking more permanent solutions to the problem.

As the refugee crisis shows no signs of abating, various options for durable solutions must thoroughly be explored from the perspective of the countries of first asylum, potential receiving countries (such as the United States and Mexico), and of the refugees themselves.

A strategy designed to evaluate the available and tested options would include a comparative study of the relative assimilation and adaptation of at least two refugee nationality groups. On-going research under the Hemispheric Migration Project is focusing on the experimental "self-sufficiency" programs set up by international agencies for selected groups in Costa Rica and Nicaragua. These programs in both rural and urban settings involve small enterprises, cooperatives, or land grants for basic subsistence agriculture. Using data collected in this research project as a point of departure, a more detailed analysis will document the factors that govern the success or failure of this and other approaches to durable solutions. Other approaches include local resettlement in the country of first asylum, resettlement to third countries within Latin America, and repatriation.

While all sectors involved in the refugee relief effort have clamored for durable solutions to the crisis, few have had the resources to examine the efficacy of the various options open to us. In our proposed research the relative success of each nationality group to reach self-sufficiency or assimilation will be measured. Key factors such as size of the program, government or international support, local integration, cost, ethnic origin of the refugee population, and socio-economic background will be evaluated for their importance to the success of each durable solution and the possibilities for replication. As noted by the Kissinger Commission, relief efforts, and durable solutions can be included in this, "would have a positive effect on the political, social and economic future of the countries involved."

Topic 2: The Future of Small Holding Agriculture in the Caribbean Basin.

Economic hardship and political unrest in the Caribbean Basin are fostered by soaring unemployment rates and severe population pressures. Within the region unemployment is currently at a level of approximately 25% to 30%. Within the Caribbean Basin 40% of the population is under the age of 15. Over the next two decades, this youthful population will come of age and enter over-crowded labor markets. Furthermore, even with optimistic projections of a continued gradual decline in the birth rate, the population is expected nearly to double by the end of the century.

Against this backdrop, we find the decline of small-holding agriculture, a system which is both labor intensive and the source of food for the poor. Preliminary research in the Caribbean shows that the abandonment of farming is related to the emigration of men and the increasing inability of the women and children left behind to eke out a livelihood on the land. In Central America, with the precipitous flight of men from rural areas and the breakdown of communal institutions which share the burden of poverty, we can anticipate similar hardships for peasant families. Rural households' abandonment of farming and relocation to cities only exacerbates unemployment problems, the growing dependence on food imports, and a chronic deficit in the balance of payments in those countries. Furthermore, we know that cities with densely packed, unemployed and underemployed populations are fertile ground for political agitation, as well as international migration, often illegal to the United States.

The HMP proposes an investigation of the current state of small-holding agriculture in several Caribbean and Central American countries. We need to know how close certain rural areas are to "the point of no return." Some researchers in Mexico, for example, have noted an almost total abandonment of farming and degradation of the land in communities with a high ratio of international migration households. Observers in Central America have expressed concern over the ability of communally-organized farming areas to reconstitute themselves once the social and political upheaval subsides.

The need to examine this situation for Central America becomes clear when viewed against the Kissinger Commission's conclusion that Central America's rural areas have the greatest potential for rapid increases in production in the historically neglected sector of food production for local consumption rather than export.

One of the projects the HMP is currently funding addresses the problem of small-holder agriculture and migration in Nevis-St. Kitts. Future HMP research can build upon this study's design and findings. We envision commissioning several teams comprised of local anthropologists, economists, agronomists, and nutritionists to conduct comparative research. Likely research sites would be Haiti, Jamaica, Mexico, Guatemala, and El Salvador.

Since one of the by-products of the research would be to recommend policies and development projects to support small-scale agriculture and reduce labor migration, a necessary component would be to study the outcome of development schemes in Latin America which have had this aim. We know that many of these projects have actually led to increased migration into labor-saturated cities at home and abroad. How to avoid such an outcome will be one of the challenges the team of researchers and policy makers will explore.

Topic 3: The Socio-Economic Impact and Future Contributions of Return Migration.

In their expressed intention to return permanently to their countries of origin, immigrants from Latin America and the Caribbean differ from earlier groups of immigrants. We do not know for certain how many do in fact return. It has been estimated, for example, that 40% of the Dominican emigrant population has returned to the island. Inasmuch as the most recent research on this latest wave of immigrants documents that many have technical and managerial skills needed for the socio-economic development of their countries of origin, this is a population that sending societies will want to recapture and retain.

Unfortunately, information on the productive role of these returnees is minimal. Research is needed to determine: what type of work the returnees are engaged in; how they have invested their savings; if they have created employment opportunities for others; if skills gained abroad are transferable; and whether returnees tend to remain or re-emigrate.

With this information, the researchers, government officials, and members of international agencies will be in the position to explore manpower training programs and financial incentives to maximize the role that returnees can play in economic modernization and growth. Among the potential research sites are Colombia, the Dominican Republic, and Jamaica.

Topic 4: Adjustments in Sending Societies to Reduction in the Market for Immigrant Labor in the United States.

Immigration reform and increased enforcement measures in the United States are likely to decrease the opportunities for employment for large numbers who have heretofore entered illegally from the Caribbean Basin. What are the probable adjustments to this change? Will a sizeable portion of the emigrant flow be redirected to other countries in the region? Will even greater pressure build in large cities, and will we witness the growth of the informal sector, for example, the ambulatory, produce vendors and lottery ticket sellers--persons who live miserably at the margins? Answers to some of these questions will be forthcoming in the research the HMP is currently sponsoring on the effects of the reduction in Colombian emigration to Venezuela.

Situated in countries such as Mexico and El Salvador, teams of demographers, economists, sociologists and policy makers would pool their expertise to offer projections of the impact that reduced opportunities for U.S. employment would have on the direction of migratory flows, fertility, the domestic labor market, the balance of payments, and public services in the selected countries.

Researchers and policy makers from Latin America and the

Caribbean have declared publicly that international migration is a low level policy concern for most governments in the region. We believe that with the already heightened enforcement of immigration laws and the likely passage of more restrictive U.S. immigration legislation, our neighbors in the Western Hemisphere will find that international migration, its causes, consequences, and management will emerge as topics for domestic, regional, and hemispheric debate and policy formulation. As Congressman Fish recently noted at a conference at Georgetown University, "the sending countries must be made aware of our concern directly and must be persuaded as to the need for developing governmental policies specifically designed to reduce emigration...We must convince these countries that it is in their own interest to encourage the would-be emigre many of whom are talented, skilled, and educated to remain at home." Through research and conferences, the HMP will provide such a forum wherein scholarly findings and policy recommendations would be aired.

In conclusion, the Hemispheric Migration Project has and will continue to bring to fruition several recommendations made by the Select Commission on Immigration and Refugee Policy. These included promoting better understanding of international migration through research and convening international meetings to explore ways of better coordinating cooperative efforts to relieve migration and refugee problems.

Central American Scholarship Program

The Central American Students Program is a pilot project to provide an opportunity for disadvantaged students from Costa Rica, Guatemala, El Salvador, Honduras, Panama and Belize to study at selected Community Colleges in the United States. It is funded by the Agency for International Development as part of the Kissinger Commission recommendations. Although the program will be administered at Georgetown University, none of the students will matriculate here.

The short term objective of the program is to determine the effectiveness of using Community Colleges to offer a combination of academic courses with vocational training for disadvantaged students from Central America. The long term objective is to establish linkages between these Community Colleges and institutions in Central America so that eventually exchange programs between them can be utilized to lower the cost of scholarships for these students to the Government of the United States. The International Student Exchange Program, which facilitates exchanges between universities in the United States and other nations, has been administered at Georgetown University for the past five years. The experience gained with this program will guide the development of the CASP.

We have met with officers of the Community College of El Paso Texas, Kirkwood Community College in Cedar Rapids, Iowa, and the Technical Institute of Waukesha, Wisconsin to provide appropriate educational programs for the first group of students. Now we are prepared to begin discussions in the Central American countries with the AID Missions, the universities and local institutions to select the first group of students.

We plan to select students who were not admitted to the local university for two years of studies in a Community College. Participants will receive an Associate Degree or a certificate of studies depending on their successful completion of their prescribed courses. The areas of concentration, for instance, business, agriculture or health services, will be determined in the negotiations within the Central American countries. The Community Colleges will organize courses for these students so that they can begin to study substantive material in Spanish at the same time they are beginning the study of English as a Foreign Language.

The first group of approximately 45 students is expected to arrive in the United States in time for the fall semester of 1985. Upon completion of two years of study in the United States participants in the program will return to enter the local university to complete their education at the same time that they begin work in a previously arranged employment.

THE UNIVERSITY VOLUNTEER INTERNSHIP PROGRAM

December 1984 marked the five-year anniversary of the University Volunteer Internship Program (UVIP) at Georgetown University, a most unique program, perhaps the only one of its kind. Under the UVIP, senior medical students are directly exposed in an overseas setting to the principles and practices of refugee medicine under the guidance of senior faculty drawn from the consortium of Georgetown, the State University of New York at Buffalo, and the University of Minnesota medical schools. Regularly scheduled teams are assigned to posts in Thailand refugee camps. Each team is composed of three to six medical students, a senior resident and/or a senior faculty member. The program is coordinated by Georgetown's Center for Immigration Policy and Refugee Assistance (CIPRA), in collaboration with the Catholic Organization for Emergency Relief and Refugees (COERR) in Thailand. The UVIP was originally sponsored by the U.S. Catholic Conference and later by Catholic Relief Services. A grant from the Bureau for Refugee Programs, Dept. of State, will help continue the program for the next several months.

The program has two objectives: first, to provide needed medical relief to refugees streaming into Thailand from Cambodia, Vietnam, and Laos; and second, to develop a corps of health professionals with special skills, experience and interest in delivering medical services to refugee populations, or to other peoples worldwide in times of natural or other disaster. Since the program's inception in 1979, 190 medical students, 8 dental students, 55 nurses, 33 residents and 30 senior faculty members have participated.

Repeated follow-up surveys of our participants indicate that our objective is being met in terms of developing a cadre of health professionals who are highly interested in devoting all or a portion of their medical careers to international health activities. Our latest survey (November 1984) asked former participants to indicate their interest and availability to respond to an international emergency. The response has been highly positive.

Discussion is underway with regard to the possible use of the pool resources in connection with the crisis in Africa with private and voluntary agencies, such as the International Rescue Committee (IRC) and Catholic Relief Services (CRS).

The capacity to respond to international crises such as now in Africa, underscores the importance of continuing the UVIP. To do so will require funding at a level of $150,000 per year to supplement the contributions of the consortium universities and of the students themselves. These funds are being sought from various sources, such as USAID and the United Nations Development Program.

American Israel Public Affairs Committee

STATEMENT OF THOMAS A. DINE, AMERICAN ISRAEL PUBLIC AFFAIRS COMMITTEE

ACCOMPANIED BY DOUGLAS BLOOMFIELD

CURRENT STATUS OF AMERICAN/ISRAEL RELATIONSHIP

Senator KASTEN. Our next witnesses are Mr. Thomas Dine and Mr. Douglas Broomfield representing the American Israel Public Affairs Committee.

Mr. Dine.

Mr. DINE. Thank you, Mr. Chairman, for this opportunity to testify. I know you have the full testimony, so I will summarize as quickly as possible.

As we meet today, the U.S./Israel relations are in very good shape, I think because of the shared views of the legislative and executive branches of our government, the attitude of the Israeli Government, and the free democratic people of sovereign nations.

As I was coming over here this morning, Mr. Chairman, I thought to myself: Who are the five most important people in making sure that this relationship is in very good shape? I would have to include yourself. I want to thank you very much publicly for the work that you have done to make sure that the United States is stronger in the Middle East.

Senator KASTEN. Thank you.

U.S. PRESTIGE IN ARAB WORLD

Mr. DINE. I would posit that the U.S.-Israel relations have never been deeper and broader in a genuine partnership headed toward a full-fledged politico-military alliance.

U.S. relations with most countries in the Arab world are simultaneously good. In fact, Arab leaders continue to look toward to Washington, come to Washington one after another. This demonstrates that close and consistently strong links to Jerusalem do not denigrate our links to Cairo, Amman, Bagdad, and other places. It is the Soviet Union whose prestige is descending in the Arab World, the United States' is on the ascent in the Jewish and Islamic Middle East.

U.S.-ISRAELI COOPERATION

You and I know that the United States has both a moral and strategic interest in Israel, and that Israel's democracy is robust, free, and constantly growing. But Israel is also an unhesitating open ally of the United States. In my testimony, I list 10 points showing how the United States and Israel cooperate together in the military arena: military planning, joint naval exercises, access to ports, facilities for the storage and the maintenance of U.S. materiel, 12 KFIR fighter aircraft to the U.S. Navy Squadrons to help train American fighter pilots, training exchanges, formal arrangements to provide access to sophisticated hospital facilities, exchanging what has been learned in combat experiences, joint research and development, and cooperation with the United States by Israel to combat international terrorism.

ISRAEL SUPPORT OF U.S. IN U.N. VOTES

Israel's role, though, goes beyond the confines of the military cooperation in the Middle East region. At the United Nations, much due to this subcommittee, Israel voted with the United States on more than 93 percent of the General Assembly resolutions introduced in the 38th Session. I say this subcommittee, because you have gotten our U.N. Delegation to track that record, and I think that is important.

Also, Israel cooperates with the United States in the information war. Just recently, Israel has agreed to install a Voice of America transmitter on its territory to enhance American broadcast to central Soviet Asia, as well as Afghanistan.

ISRAEL'S ECONOMIC SITUATION

Israel has gone through three kinds of shocks that have affected its economy, and the growth of defense spending is one of them. The other is the enormous increase of energy costs since 1973. The third shock that Israel has suffered is a debt service burden.

Israel is trying to face up to its real economic difficulties, and you and other Members of the Senate have been involved in trying to encourage them to face up to their difficulties. The austerity program that Prime Minister Perez and the National Unity Government have put into place is having a real and painful effect on the living standards of the people of Israel.

Israel is not a basket case. Israel has a strong economic infrastructure, and I believe a potential successful future, an export led future. It is a country that exports more per capita than Japan does. It is a country that has gone from a Third World level of development to a European standard in a single generation. It is one of the great economic success stories of the post-war period.

It is a country laboring against great odds, and it is a friend of America whose burdens have at this moment accumulated and pose a considerable challenge. Israel needs America's help now if its plans for reconstruction and recovery are to succeed.

U.S. AID TO ISRAEL

The sums that the United States spends on aid to Israel are substantial in an absolute sense, but in comparative perspective aid to Israel is one of the least expensive and one of the most effective national security expenditures that our country makes. In fiscal year 1985, for example, we are spending $2.6 billion on aid to Israel, but U.S. expenditures in support of European security are estimated by the New York Times to be $129 billion. Our expenditures for the security of Japan and Korea are $47 billion. In this perspective, we spend 50 times as much on Europe, and 18 times as much on Japan and Korea as we do on Israel.

To put it another way, contained in the U.S. defense budget is an average of $10 billion to support the security of each 13 European members of NATO, and $8 billion to support the security of each of our six allies in the Eastern Asian area. While it is difficult exactly to compare expenditures in the foreign aid program with those that happen to fall within the defense budget, these broad comparisons suggest that our assistance to Israel is actually less than a third as costly as the average amount we spend on other allies.

Israel has never asked that American soldiers participate in its defense.

In conclusion, Israel is a democracy, our one reliable ally in the Middle East. It is a willing partner in the peace process, and a country that shares many of the goals and values that are important to Americans. Israel is also an ally in trouble, a friend asking for our help. Israel has a plan to get back on its feet, but needs a special effort on our part during this transitional period. Israel's economy is the foundation of its defense capability, and for this reason the United States has a vital interest in extending the assistance needed to keep our ally strong.

I urge, Mr. Chairman, that this subcommittee react favorably, and report favorably the foreign aid appropriations bill.

Senator KASTEN. Thank you, first of all, for your testimony. As you know, the administration has not yet come forward with a specific supplemental request. But we look forward to working with you and the administration toward the goals that all of us share.

Mr. DINE. Thank you very much, we appreciate it.

[The prepared statement of Mr. Dine follows:]

PREPARED STATEMENT OF THOMAS A. DINE

EXECUTIVE DIRECTOR

AMERICAN ISRAEL PUBLIC AFFAIRS COMMITTEE (AIPAC)

Thank you, Mr. Chairman, for the opportunity to testify before this distinguished committee. Appearing with me are Mr. Douglas Bloomfield, AIPAC's Legislative Director, and Mr. Steven Rosen, AIPAC's Research Director.

The American Israel Public Affairs Committee (AIPAC) appreciates the opportunity to express our views on the proposed Foreign Assistance Appropriation for FY 1986 and the state of U.S.-Israel relations.

AIPAC is a domestic organization of American citizens who value a close and consistently strong partnership between our country and Israel. On our Executive Committee sit the presidents of the 38 major American Jewish organizations representing more than four-and-one half million members throughout the United States.

As this committee considers the foreign assistance appropriation for Israel for FY 1986, it faces several essential questions. How does assistance to Israel serve the national interest of the United States? Is the amount proposed proportionate to Israel's legitimate requirements? And how will U.S. aid fit into Israel's plans for recovery from its present economic crisis? I would like to take this opportunity to provide pertinent background for your deliberations on these issues.

HOW DOES ASSISTANCE TO ISRAEL SERVE THE NATIONAL INTEREST OF THE UNITED STATES?

The United States has both a moral and a strategic interest in Israel. Israel is the only country of the Middle East with meaningful free elections, a robust free press, checks and balances to prevent and correct abuses of authority, extensive protections for the rights of individuals and minorities, basic equality for women, and other safeguards and rights that are typical of a free society. It stands in sharp contrast to the other countries of the region, which include feudal monarchies like Saudi Arabia, where all power is permanently concentrated in the hands of a few wealthy princes and where average citizens are under constant surveillance by the religious police and internal security forces; dictatorships like Syria, where the government slaughtered 10,000 of its own citizens three years ago; or radical fundamentalist regimes like Iran, which terrorizes its minorities, suppresses its middle class, and ships off its youth to be slaughtered in a meaningless war.

Nothing could better exemplify the moral purposes which bind the United States and Israel than "Operation Moses" - the airlift of 12,000 Jews from drought-stricken Ethiopia to Israel. At a time of severe financial crisis and rising unemployment, Israel - with the diplomatic assistance of the United States - is engaged in the noble task of rescuing thousands of starving and persecuted people and giving them new lives as citizens of a free, democratic Jewish state. And Israel is undertaking this task for one reason only - because it is the right thing to do. As New York Times columnist, William Safire, has observed: "For the first time in history, thousands of black people are being brought into a country not in chains but in dignity, not as slaves but as citizens."

Contrast this with the reaction of Israel's Arab neighbors to this humanitarean undertaking. Libya demanded punishment, Saudi Arabia condemned both Israel and the United States, Egypt avoided either comment or assistance, the PLO charged a Zionist conspiracy, the Arab League placed the Belgian airline which transported the Ethiopian Jews on its boycott list, and Ethiopia demanded that all the refugees be sent back to live in Ethiopia.

The American people have long felt an affinity with Israel because of our shared democratic traditions and values. Precisely because of these moral and political ties, the United States has developed a strategic interest in Israel's well-being. As President Reagan has noted, Israel and the United States are "partners in the defense of freedom." Israel, like the United States, is a fighting democracy. The people of Israel, from the ordinary citizen to the leaders of all significant political parties, conceive of their interests in the same way as we do. They stand ready and able to help the United States defend the Free World. In this sense, Israel is an "organic ally." It will be there when we need it. In the vitally important part of the world that Israel inhabits, this is a rare phenomenon indeed. Israel is our only permanent ally in the Middle East and one of only two in the eastern Mediterranean.

This is not to suggest that the United States has no other friends in the region. But it is to suggest that the good relations we enjoy with those other countries are based on understandings with unelected ruling elites in societies where the ordinary person has no special love for the United States or the Western world. As we learned in Iran, such alliances with autocratic and unstable elites can be ended by the next coup or revolution. Moreover, as we are witnessing today, the increasing attraction of anti-Western, Islamic fundamentalism to the Arab masses is already forcing these elites to distance themselves from the United States. The refusal of the Gulf Arabs to grant the United States access rights, Egypt's unwillingness to live up to its strategic commitments at Ras Banas, and Morocco's alliance with Libya, are some of the more eggregious examples of the unreliability of most states in the region.

By contrast, the bond between the people of the United States and Israel gives them more than a common sense of purpose. It means that Israel will be allied with the United States over the long term, long after these erstwhile allies of convenience are gone. That Israel is indeed a strategic ally of the United States has been formally recognized in the President's November 1983 announcement of strategic cooperation between the two countries. Since then, over a 14 month period, Israel has demonstrated on multiple occasions its strategic value to the United States. Israel has:

* Undertaken military planning with the United States to meet threats to mutual interests in the Middle East and the eastern Mediterranean.

* Participated in a joint naval exercise with the Sixth Fleet designed to strengthen U.S. anti-submarine warfare capabilities in the eastern Mediterranean.

* Provided access to its ports for regular ship visits by the Sixth Fleet.

* Made facilities available for the storage and maintenance of U.S. material for American use in a conflict.

* Provided twelve of its KFIR fighter aircraft to the U.S. Navy's "aggressor" squadron to help train American fighter pilots.

* Engaged in military training exchanges with the United States Marines.

* Entered into formal arrangements to provide access to its sophisticated hospital facilities for U.S. military casualties in a conflict. (These facilities have been tested in two joint medical exercises and have already been used to treat U.S. personnel injured in the bombing of the U.S. Embassy annex in east Beirut).

* Shared with the U.S. the lessons of its combat experience in Lebanon where Israel successfully used American equipment against Soviet weapons.

* Undertaken joint research and development projects with the Pentagon to build on the technological expertise acquired from decades of conflict.

* Stepped up its cooperation with the United States to combat international terrorism.

These undertakings have considerable strategic significance for the deterrent posture of the United States in the Middle East and eastern Mediterranean. They provide tangible evidence to the Soviet Union and its clients that U.S. capabilities are supported by Israel. Although, of course, Israel is a small nation, the Soviet Union understands better than some in the West just what this means:

* Israel's knowledge and experience with Soviet equipment have for many years helped the United States develop more effective weapons, counter-measures and tactics.

* Israel's naval and air forces are sufficiently strong to challenge Soviet naval forces in the eastern Mediterranean and therefore make a significant difference to the Soviet calculus of the balance of power in that area when added to American force deployments.

* Israel has demonstrated the vulnerability of Soviet SAMs and MiGs in Lebanon, forcing the Soviet Union to divert expenditures from force expansion to force renovation, and discrediting the weapons on which much Soviet influence depends. This experience deters Soviet trouble making in the region and provides Moscow with a powerful incentive to discourage adventurism in its regional clients.

Nevertheless, strategic cooperation between the United States and Israel is only the most recent visible sign of Israel's vital role as a strategic ally of the United States. Long before the United States entered into these formal strategic arrangements, Israel was playing a critical role in the promotion and protection of U.S. strategic interests in the Middle East. For example:

* Israel's relinquishment of the Sinai, at great

economic cost and strategic risk, helped to consolidate U.S. ties with Egypt and wean this largest and most powerful Arab state away from the Soviet Union, while stabilizing the Arab-Israeli conflict.

* Israel's willingness to mobilize its forces against the Syrians has helped to protect Jordan and maintain the pro-Western regime there on more than one occasion - and the threat of Israeli action remains the only effective deterrent to Syrian designs on Jordan.

* Israel's war against the PLO in Lebanon dealt a vital blow to international terrorism and eliminated its global headquarters.

Moreover, Israel's role as an ally of the United States goes well beyond the confines of military cooperation in the Middle East region.

* At the United Nations, Israel voted with the United States on more than 93% of the General Assembly resolutions introduced in the 38th Session, the highest rate of cooperation of any country in the world. This contrasts with 40.5% for Turkey and 26.8% for Greece - America's NATO allies in the eastern Mediterranean; it also contrasts with 23.4% for Egypt, 19.3% for Saudi Arabia and 17.2% for Jordan - America's "friends" in the Arab world.

* In the Third World, Israel is using its expertise and experience to provide technical assistance to pro-Western developing countries in coordination with the United States. Similarly, Israel is providing security advice and assistance to pro-western governments in other parts of the world.

* In the information war, Israel has agreed to install a Voice of America transmitter on its territory to enhance American broadcasts to Soviet Central Asia and Afghanistan, despite the inherent risk of worsening the plight of Soviet Jews. By contrast, America's NATO allies, Greece and Turkey, both refused to host the VOA transmitter because of their unwillingness to endanger their relations with Moscow; reportedly, Oman has also turned the U.S. down.

In short, the people of Israel have demonstrated time and again that they are more than willing to live up to and enrich the ideals and values that we share, and that they are more than able to help defend them in an alien and hostile part of the world. Moreover, in the process of acting together, Israel has demonstrated that it is a capable and reliable partner - a country that we need on our side and a country that we can safely expect to be on our side. Accordingly, the United States has both a serious moral commitment and a vital strategic interest in Israel.

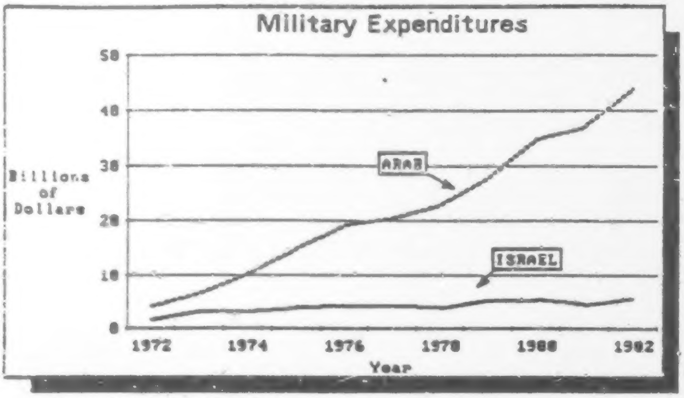
ISRAEL'S NEED FOR AID

After thirty years of extraordinary economic growth and development, Israel is now going through a period of economic crisis requiring difficult and painful reforms and readjustments. To put the problem in perspective and explain why we believe that strong support from the United States is essential to help our ally get back on its feet, we must begin with some background. Specifically, I will address four issues: first, the basic long-term, structural problems that the Israeli economy faces; second, the particular challenge posed by the current economic crisis; third, what the Government of Israel is doing to restore health to the economy; and finally, why the role of the United States is so important for the recovery plan to succeed.

Israel suffers from a scarcity of natural resources, but has had to face the challenge of absorbing over a million immigrants and refugees in a very compressed period of time, building an entire economic infrastructure in a single generation. Even today, as we meet, some ten thousand Ethiopian Jews rescued in the airlift called "Project Moses" are being absorbed, at a cost that is expected to exceed $250 million over the coming few years. Israel's rapid population growth in an environment of scarce natural resources would pose a considerable challenge under the best of circumstances.

But Israel has not enjoyed the best of circumstances. Its "neighbors" have, from the beginning, rejected its very existence and refused to engage in any form of trade, commmerce, or communication. Far worse than the economic isolation has been their relentless preparation for war against the Jewish state, and their periodic attacks. Beyond the human costs of the fighting, the wars and the continuing arms race have imposed a staggering economic burden. The October 1973 surprise attack alone cost Israel the equivalent of its entire GNP for that year--$10.3 billion. Since then, awash in a sea of cash from the inflated prices of oil, the Arabs have increased their military spending eightfold to a current level of almost $50 billion dollars. (See Figure 1).

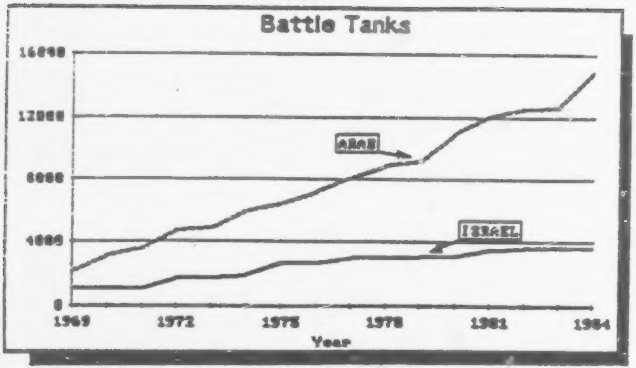
FIGURE 1



SOURCE: U.S. Arms Control Disarmament Agency.

This is twice Israel's entire GNP, and about seven times its expenditures on defense. To maintain its own deterrent and defense capability in the face of this enormous Arab buildup, Israel has been forced to increase its defense expenditures fourfold. Even at this rate of spending, the arms balance has continued to erode. While Israel's tank inventory has doubled since 1973, that of the Arabs has quadrupled (See Figure 2);

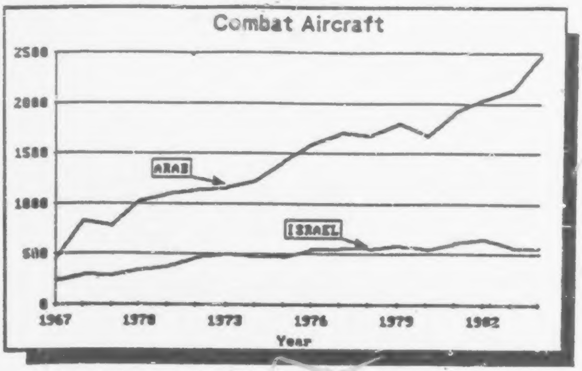
FIGURE 2



SOURCE: International Institute for Strategic Studies, Military Balance.

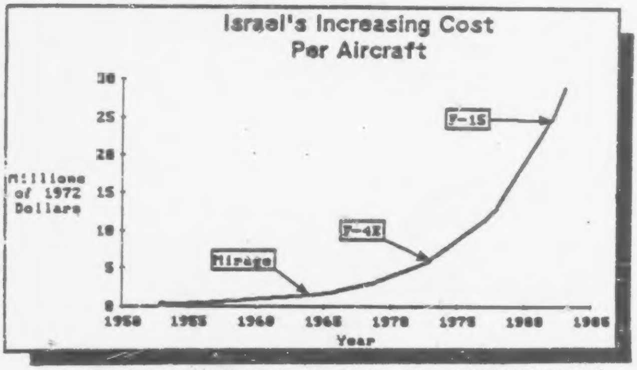
the ratio of combat aircraft, which was 2:1 in favor of the Arabs in 1973, has worsened to 5:1 in 1984 (See Figure 3). And frontline aircraft are now far more expensive to procure and operate. The advanced fighters on which Israel depends to maintain its qualitative edge cost five times as much today (in constant dollars) as their 1970 equivalents. (See Figure 4). One F-15 costs as much as all the housing for a medium-sized Israeli town.

FIGURE 3



Source: International Institute for Strategic Studies, Military Balance.

FIGURE 4

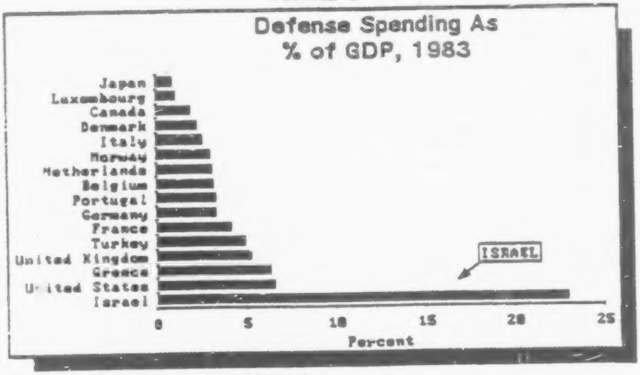


SOURCE: Jackson, Robert, The Israel Air Force Story; House Committee on Appropriations, 1984; Department of Defense, [illegible].

medium-sized Israeli town.

The result of all this is a staggering defense burden, resulting in a corresponding increase in the need for U.S. aid. Israel spends about a quarter of its GNP on defense, financed by a combination of its own expenditures and assistance from the United States government. By comparison, Japan spends about 1%, Germany about 3%, and the United States 7%. Israel's defense burden, measured in real terms, is the highest of any country in the world. (See Figure 5).

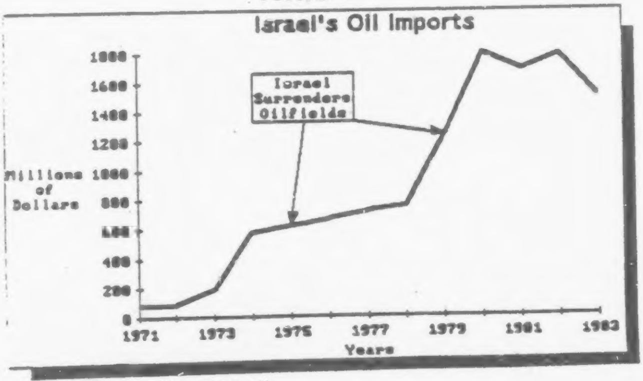
FIGURE 5



SOURCE: NATO, Central Bureau of Statistics (Israel).

To the growing defense burden since 1973, have been added the repeated shocks of energy price increases. Before 1975, Israel was rapidly reducing its energy dependency, as production in the Sinai oilfields increased. But in 1975 and 1979, the Sinai was relinquished to Egypt in exchange for what was to have been full peace. Israel has suffered two great disappointments since Camp David. One is the failure of Egypt to live up to the promise of that historic agreement and to normalize its relations with Israel as a true neighbor. The other is the drastic increase in the price of oil, which has made the cost of importing energy to replace the oil surrendered far greater than anyone anticipated at the time. The net result is that, in spite of extensive energy conservation measures instituted, Israel spends a billion dollars a year more to import energy today than it did before the peace process began in 1975. (See Figure 6).

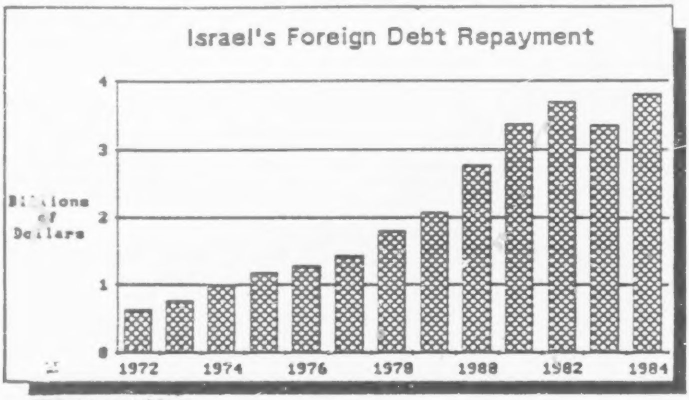
FIGURE 6



SOURCE: Central Bureau of Statistics. (Israel).

Another burden that has grown astronomically is the cost of servicing the huge debt that has accumulated in the process of paying these defense and energy costs of war and peace. Israel's foreign debt service (principal and interest payments) today is almost four billion dollars per year--$1 billion to the United States government alone. This is four times the level of a decade ago. (See Figure 7). Debt service now consumes over forty percent of the entire government budget. (See Figure 8).

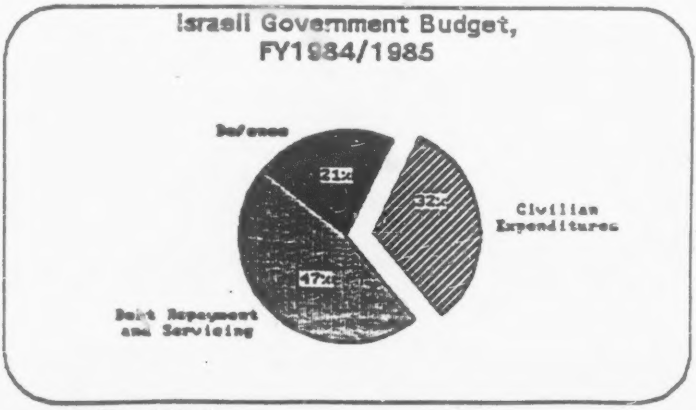
FIGURE 7



SOURCE: Government of Israel.

These three shocks--the growth of defense spending from $1.5 billion in 1972 to $5.0 billion today, the growth of energy imports from $100 million in 1972 to $1.5 billion today, and the growth of foreign debt service payments from $.6 billion in 1972 to $3.9 billion today--have added a total of $8.2 billion to the strains Israel already faced before the Yom Kippur War. To put this sum in perspective, just the

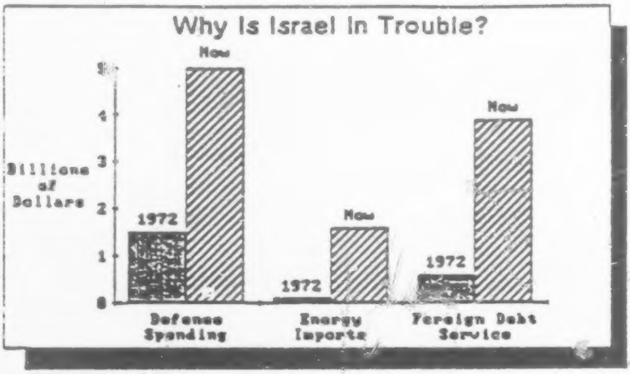
FIGURE 8



SOURCE: Government of Israel.

amount added to the pre-1973 burden constitutes 33% percent of Israel's GNP. (See Figure 9).

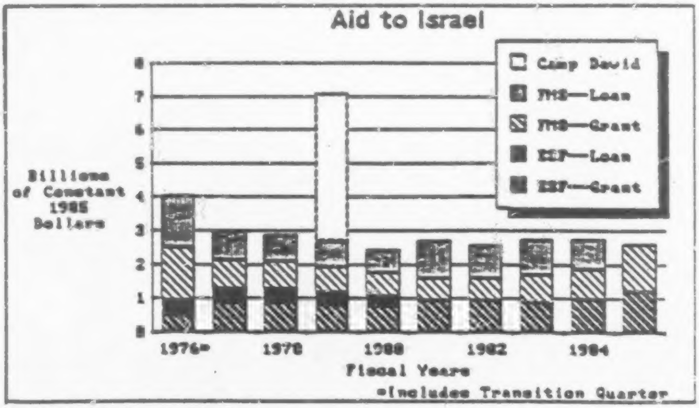
FIGURE 9



SOURCE: Government of Israel.

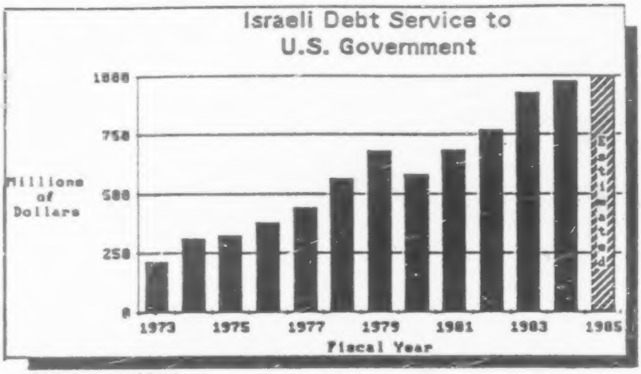
This sum of the three shocks is also more than three times the current level of U.S. assistance to Israel, combining both FMS credits and ESF grants. In fact, although U.S. aid to Israel has increased in current dollars, aid adjusted for inflation, aid net of Israeli repayments of past U.S. government loans, and aid as a percentage of Israel's GNP have all gone down. Israel is receiving $2.6 billion in FY 1985, but measured in 1985 dollars, FY 1977 aid was the equivalent of $3.0 billion, and FY 1976 $4.0 billion. (See Figure 10). Net aid has

FIGURE 10



SOURCE: Agency for International Development.

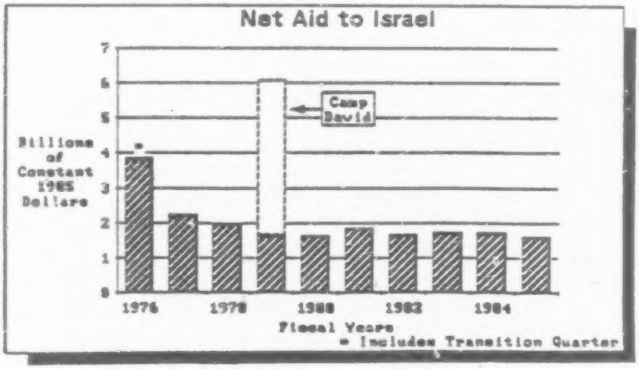
FIGURE 11



SOURCE: Government of Israel.

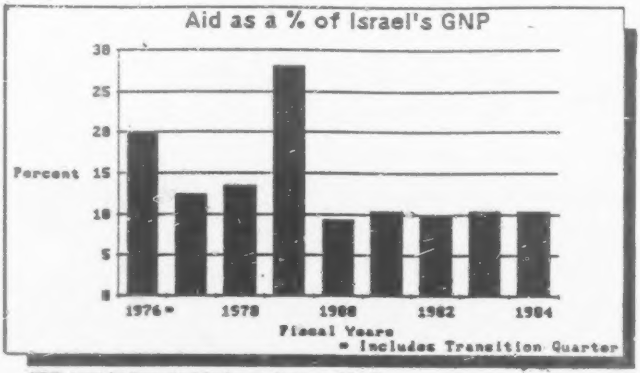
declined more sharply, because payments on past U.S. government loans have tripled from $350 million in 1976 to $1 billion today. (See Figure 11). U.S. aid net of this reverse flow is now less than half the 1976 level. (See Figure 12). And U.S. aid as a share of Israel's GNP has been

FIGURE 12



SOURCE: Agency for International Development, Government of Israel.

FIGURE 13



SOURCE: Agency for International Development, Government of Israel.

halved from 20% of GNP in 1976 to 10% today. (See Figure 13). Net aid as a portion of Israel's GNP has declined more steeply.

The point here is certainly not to minimize the significance of the United States' generosity toward its Middle Eastern ally. The reality, however, is that the burdens under which Israel's economy operates have grown astronomically, and that help from the United States, substantial as it is, has not kept pace.

ISRAEL'S CURRENT ECONOMIC CRISIS

The enormous burdens under which Israel's economy labors create a situation in which the small Jewish state has much less flexibility in determining economic policy than a country like the United States. The economic and political consequences are far more severe when miscalculations or misallocations do occur, or when adverse changes occur in the global economy. And, in recent years, Israel's problems have been worsened by both an unfortunate turn in the international market and some internal policy errors that are now being corrected.

The new external problem is an adverse change in Israel's terms of trade for imports and exports. The strong dollar has put Israeli exporters at a disadvantage and weakened Israel's trading position. Most exports go to European countries, where Israeli exporters are being paid with weaker currencies. Meanwhile, imports of oil and goods from the U.S. are denominated in dollars and therefore, are becoming more expensive relative to Israel's exports. Israel's debt service payments to the U.S. (about $1 billion in 1984) are transferred in dollars. The strength of the dollar effectively erodes Israel's balance of payments position.

Other adverse developments in recent years have been brought on by miscalculations in fine-tuning Israel's economic policy to deal with the compounded problems discussed above. In 1982, Israel found itself facing an economic war on two fronts simultaneously: spiralling inflation, and a steadily widening balance of payments deficit. In order to attack the inflation, the government tried to lower the rate of devaluation to hold down the cost of imported materials necessary for much of Israeli production. This proved to be a miscalculation: a small reduction in the inflation rate was achieved, but because imports surged, the balance of payments gap greatly widened.

Another policy which has to some extent exacerbated Israel's rate of inflation is the general practice of "indexation." Wages and financial assests automatically rise when the cost of living rises. This has protected workers, particularly those on low and fixed incomes, from the ravages of inflation. But it has also fueled inflation, both by exaggerating the effect of price increases, and at the same time preventing rising prices from reducing demand.

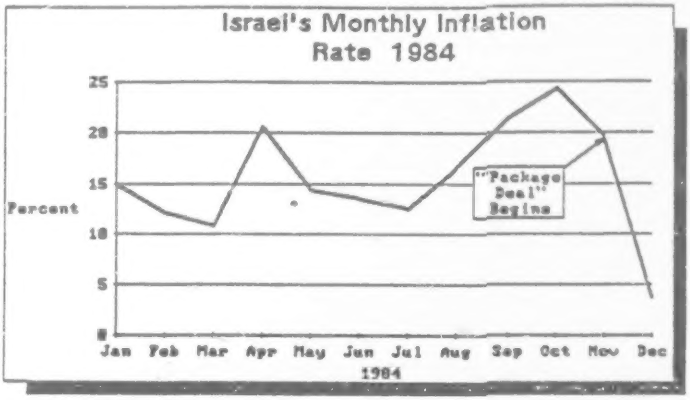
Because Israel is so small, policy errors such as the above have a major impact upon the economy. This is one reason why the Government of Israel must institute economic reform measures cautiously and incrementally.

In summary, the combination of Israel's structural problems, recent changes in the global economy, and some economic policy errors of the past currently being corrected, has brought about a complex economic crisis. The crisis has six major components: (1) high inflation, (2) a balance of payments deficit; (3) a large budget deficit; (4) slowed economic growth; (5) a growing debt service burden; and (6) dwindling foreign exchange reserves. Let me highlight a few points about each of these.

1. Israel's current inflation problem: The inflation rate steadily worsened from 191% in 1983 to almost 450% in 1984. However, in the past several months, inflation has been dramatically slowed by Phase I of the "Package Deal" reached by the Histadrut (workers' union), the Manufacturers Association and the Government. The monthly inflation rate fell from 24.3% to 3.7% between October and December 1984. (See Figure 14). January's consumer price index of 5.3% reflects the government's ability to get inflation under control. Phase II of the Package Deal (which began in early February) will continue to cool inflation and give Israel a "breathing space" while basic economic reforms are instituted.

2. Israel's large current account deficit: As a result of the defense burden and natural resource scarcity, Israel has traditionally imported more goods than it has exported. The gap in its balance of payments has steadily widened over the past two decades until 1984, when there was a $1 billion improvement in the trade account. But in 1984, Israel also paid $1 billion in interest to the U.S. Government, offsetting the improvement in the trade balance. Israel must continue encouraging its export sector to improve its balance of payments position and help the economy grow.

FIGURE 14



SOURCE: Government of Israel.

The Free Trade Area currently being finalized between Israel and the United States will be an essential tool for Israel to increase trade with the U.S. and expand its export sector.

3. Israel's large budget deficit : While it is true that the government's budget deficit is relatively large (12% of GNP), there are certain built-in constraints which make it difficult for Israel to maintain a balanced budget. About 42% of Israel's government budget is set aside for servicing the debt, and cannot be cut. Of the remaining portion, half is spent on defense, leaving only one third of the budget for all other government expenditures including "entitlement" programs. Therefore there is limited flexiblity for reducing the budget or reallocating funds. Compared to the United States, where we are also familiar with the problem of reducing budget deficits, Israel must make larger cuts from a smaller portion of its budget. It would also be extremely difficult to raise additional revenue by raising income taxes, as Israelis already face tax brackets of up to 66% and endure the highest income tax rates in the world.

4. Israel's external debt: Israel's debt is primarily due to importing essential raw materials and defense equipment, and has grown steadily over time rather than in an explosive fashion as in many developing economies. Israel has met all its debt service obligations on time and in full.

5. Slowing of Israel's economic growth : Israel experienced an average annual growth rate of 8.1% in the 1960's and 5.7% in the 1970's. This impressive growth has been slowed to a lower rate of about 2% in the 1980's. This downward trend in economic growth parallels the situation in many countries throughout the world. The lower growth rate reflects the extent to which the worldwide recession affected Israel, a country which is deeply dependent on the health of the global economy. But Israel's main asset is its enterprising and productive population, and with the right steps taken now, a resumption of rapid economic growth is a real possibility.

6. Israel's foreign exchange reserves problem: Foreign reserves are being depleted by debt service and the imbalance of trade. The solution is to increase exports and reduce imports. This process is well underway, but the Government must manage the nation's reserves carefully during the transitional period.

ISRAEL'S PLAN FOR RECOVERY

Israel's National Unity Government, in cooperation with organizations of workers and employers, is pursuing a bold austerity program to bring these problems under control and restore economic health to the Jewish state.

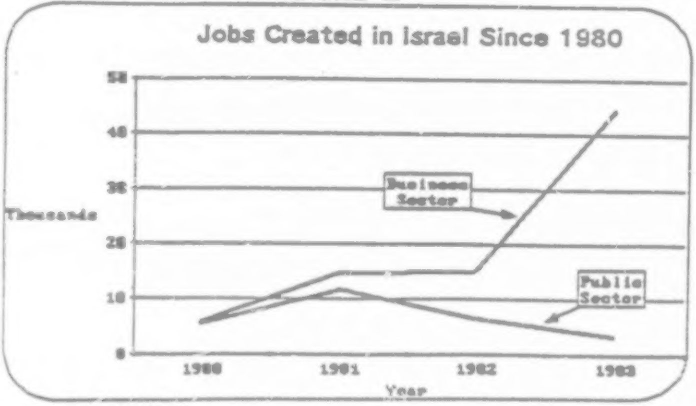
To reduce inflation, it is limiting public and private consumption by reducing government expenditures and cutting the standard of living. As part of this process, a social contract (known as the "Package Deal") among workers, employers, and the government is keeping a ceiling on prices and wages and moving away from the system of indexation.

To improve the balance of payments, it is taking steps to encourage exports, especially in the high technology area where Israel is most competitive, and reduce imports by cutting the standard of living and devaluing the currency faster than the rate of inflation.

To stimulate growth, it is focussing on attracting more foreign investment and joint ventures, improving the business climate, and developing new markets for exports.

To restructure the economy, it is shifting resources and manpower out of the public sector and into the private sector. (See Figure 15). The latter, expecially the "productive" exporting part of the economy, offers the best hope of earning foreign exchange to improve Israel's balance of payments.

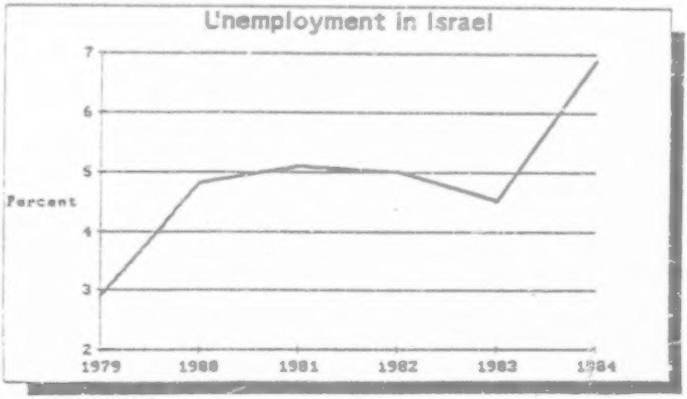
FIGURE 15



SOURCE: Bank of Israel.

To avoid mass unemployment, it is finding ways to lower wages in the public sector so as to reduce the government budget without promoting joblessness. In the private sector, it is trying to promote job-creation in export industries. This is essential to avoid unemployment at levels which are socially intolerable. (See Figure 16).

FIGURE 16

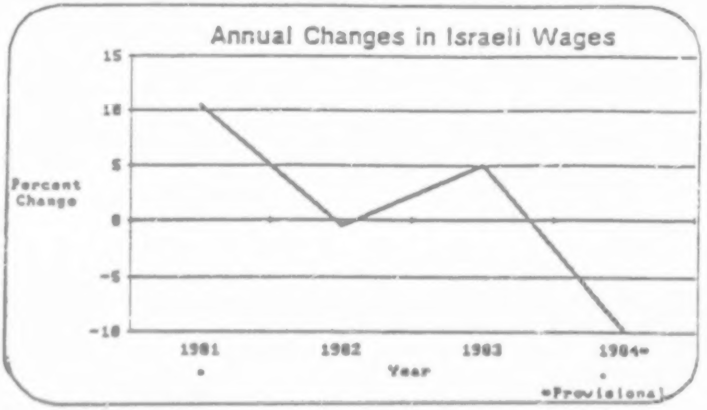


SOURCE: Bank of Israel.

To achieve all this, the government's economic program includes ambitious and often painful measures affecting almost every sector of the society. Nothing, not even defense or the entitlement programs, is exempt.

By compensating workers at less than the full rate of inflation, wages are being cut by an estimated 17-18% by March 30. This shrinks local demand, lowering inflationary pressures, and it reduces the demand for imports and thereby helps the balance of payments. For a democratic society to willfully reduce wages by 17% in a six month period is almost unprecedented. (See Figure 17).

FIGURE 17



SOURCE: Bank of Israel.

At the same time, subsidies on a wide variety of products are being reduced or eliminated, biting deeply into the living standard of ordinary people. The fuel subsidy is being terminated altogether (gasoline is now over $3 per gallon), and subsidies on water, electricity, public transportation, and basic foods like bread and milk are being reduced substantially.

Defense spending is being cut by $300 million, on top of a similar cut during the last fiscal year, for a total cut of 19% in local defense spending over two years. The Minister of Defense, Yitzak Rabin, and his predecessor Moshe Arens, have warned that such drastic reductions will adversely affect national security and the welfare of soldiers.

Education funds are being cut severely. Tuition for high school is under consideration, and university fees have already increased.

A freeze is in effect on hiring in the public sector, and on the construction of new buildings and facilities. The Minister of Finance estimates that because of the budget cuts, 15,000 public employees will lose their jobs.

The shekel is being devalued more rapidly than the rate of inflation. This raises the prices of all imports and many locally produced goods which contain imported components or raw materials, further lowering the standard of living.

Altogether, the Cabinet has approved $2.3 billion in cuts, a reduction of about 18% in the total operating budget (including all expenditures except debt service). By way of comparison, in spite of all the cuts instituted in the U.S. since 1981 under the stimulus of President Reagan's budget-cutting program, the net operating budget of the United States (excluding debt service) in FY 1985 is actually 35% greater today than in FY 1981. Israel's eighteen percent cut in one year, including defense and entitlement programs, is a stunning achievement, and represents a reduction far greater than anything contemplated in the United States since World War II.

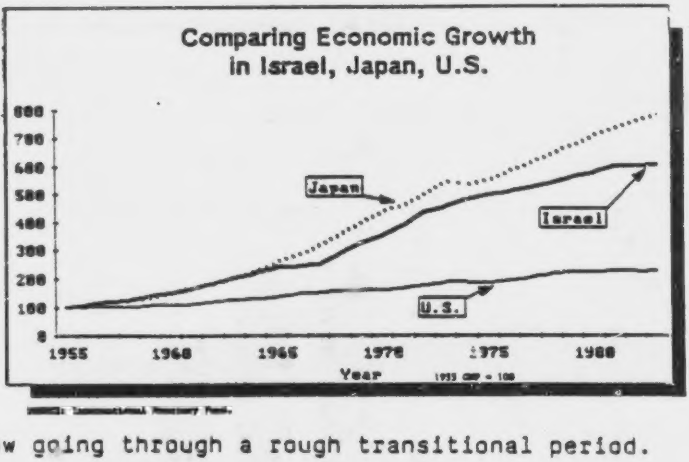
WHY U.S. ASSISTANCE IS VITAL

Israel needs America's help now, if its plan for reconstruction and recovery is to succeed. What is being put in place is a sweeping stabilization program to reduce the standard of living, cut the government deficit, stimulate exports while reducing demand for imports, and bring the growth of indebtedness under control. While dramatic progress is being made on some fronts, such as taming the rate of inflation, other adjustments will necessarily take longer to succeed, in such areas as the promotion of exports.

During this transition, Israel is asking for special understanding in the United States. It does so with the knowledge that, historically, America has been the bedrock of strength for the other democracies when the chips were down. The Marshall Plan for the recovery of Europe after World War II, our generous help to Japan in the decade after 1945, and our central role in sparking the economic growth of Brazil, Taiwan, South Korea, and Singapore--all are examples not only of America's leadership and generosity, but also of the ways in which U.S. assistance to allies under stress has led to recovery and strength in succeeding years. Today, Israel is in trouble, and needs our help.

Israel is not a basket case. It is a country with an extraordinary record of rapid economic growth (See Figure 18) that is now going through a rough transitional period.

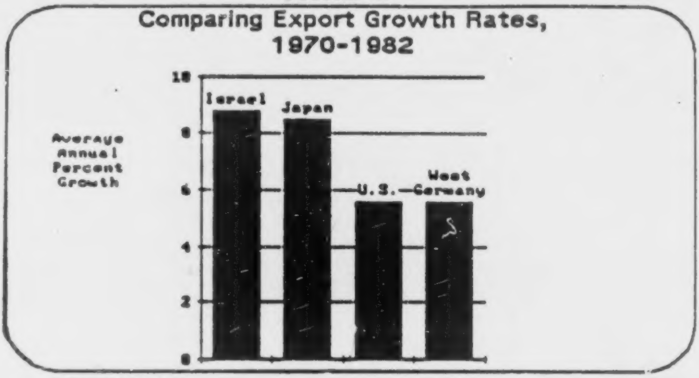
FIGURE 18



SOURCE: International Monetary Fund.

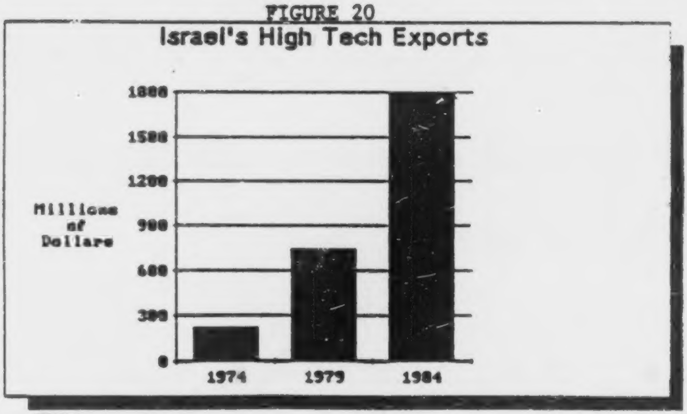
Even in recent years, Israel's record has been impressive. Since 1970, its exports have grown even more rapidly than those of Japan (See Figure 19), and export growth has been particularly dynamic in high technology goods (See Figure 20). Critics, and even friends, are often surprised to learn that Israel exports more per capita than Japan does. (See Figure 21).

FIGURE 19


Comparing Export Growth Rates, 1970-1982

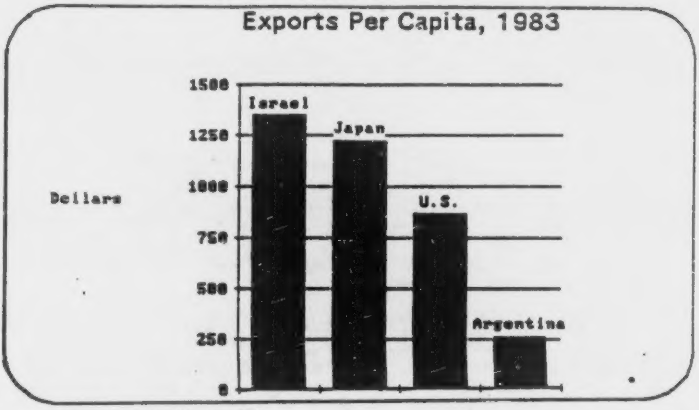
SOURCE: The World Bank.

FIGURE 20


Israel's High Tech Exports

SOURCE: Government of Israel.

FIGURE 21


Exports Per Capita, 1983

SOURCE: International Monetary Fund.

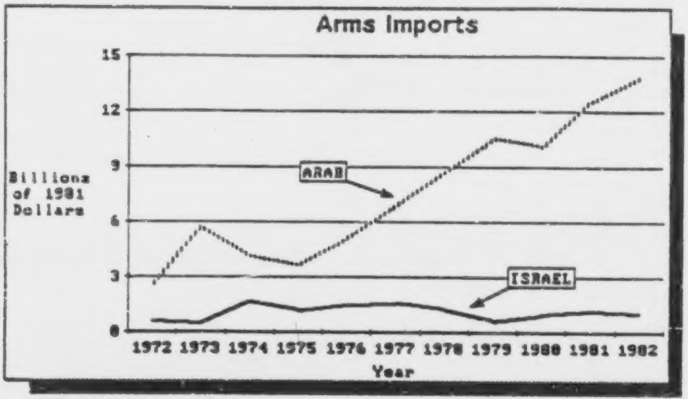
Israel also has a record of accomplishing major social changes when they are vital for national security and economic growth. Indeed, adaptability has been a necessity to survive in a nation whose Jewish population has increased sixfold in less than forty years.

Today, such a basic social change is underway, in the shift from government-owned enterprises to the private sector (See Figure 15). The great majority of new jobs created over the past five years has been in the private sector, and the gap between growth in the private sector and that in the public sector continues to widen. There is a new consensus in Israel that the Government must play a key role in bringing about economic reform, but the engine of progress for the future of the economy is in the private sector.

U.S. assistance at this time is essential for several reasons: (1) to ensure that cuts undertaken to strengthen the economy do not weaken Israel's defense and undermine its deterrent; (2) to help manage the debt burden and reserves so that the recovery plan is not capsized by financial disturbances; and (3) to offer the people of Israel a ray of hope for the future, to help them accept the sacrifices that are necessary today.

The increase that the President has requested in the Foreign Military Sales (FMS) account is essential to finance the purchase of U.S. equipment to offset the enormous quantities of arms flowing to the rejectionist Arab states from the Soviet Union and other countries. Arab arms imports have increased 700% since 1972, and today the world's four largest importers of arms are all Arab countries (Libya, Syria, Saudi Arabia and Iraq). Israel has not kept pace with this increase. In 1972, seven Arab countries outspent Israel on arms imports by a margin of four to one; today, they outspend Israel by more than fifteen to one. (See Figure 22). Israel cannot and should not keep up one-for-one with this astronomical pace of force-building. But it also cannot afford to stand still. The increase that President Reagan has recommended is the minimum necessary to maintain Israel's qualitative edge to ensure its security.

FIGURE 22



SOURCE: U.S. Arms Control and Disarmament Agency.

Assistance in the form of Economic Support Funds (ESF) is essential to help manage the debt burden and offer the people of Israel a ray of hope that their sacrifices for the economic recovery will lead to a better future. As indicated earlier, Israel's debt service to the United States government this year is about $1 billion, triple the amount of a decade ago. Truthfully, the greater part of the ESF being requested, will never leave the U.S. Treasury because it will, in effect, return as interest and principal payments on past loans. The remainder, which will be available to Israel, is considerably less than what would be required merely to offset the added expense Israel faces to pay Egypt for oil from the Sinai. In other words, while the overall aid program is large, it is, in perspective, a frugal and even austere package.

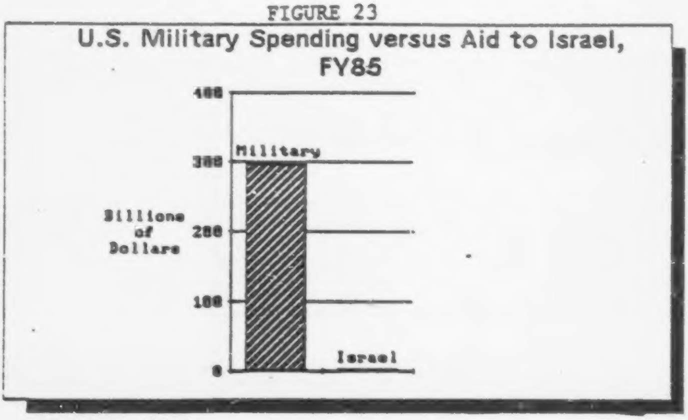
Israel is also requesting supplemental assistance for FY '85. This is an essential component to help Israel through the current crisis. I know the Administration and the Congress are supportive of emergency assistance at this critical time. This important subcommittee will play a key role in setting an appropriate level.

CONCLUSION

The sums that the United States spends on aid to Israel are substantial in an absolute sense, but in comparative perspective aid to Israel is one of the least expensive and most effective national security expenditures our country makes. (See Figure 23).

In FY 1985 for example, we are spending $2.6 billion on aid to Israel, but U.S. expenditures in support of European security are estimated by the New York Times to be $129 billion, and our expenditures for the security of Japan and the countries of East Asia are $47 billion. In this perspective, we spend 50 times as much on Europe, and 18

FIGURE 23

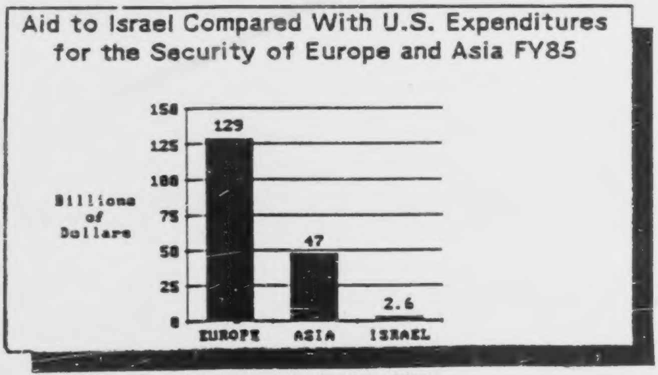


U.S. Military Spending versus Aid to Israel, FY85

SOURCE: Department of Defense.

times as much on Japan and Korea, as we do on Israel. (See Figure 24).

FIGURE 24

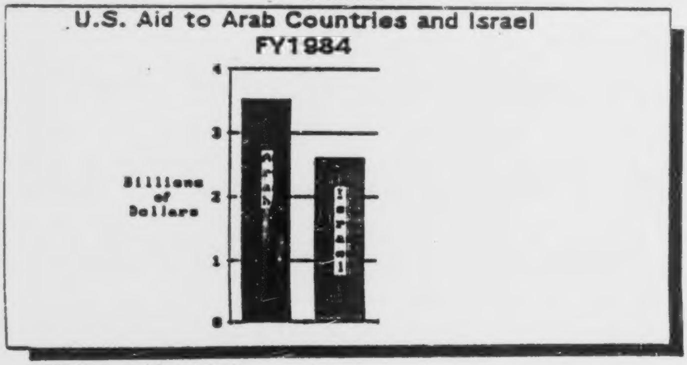


SOURCE: Ravenal, Earl C., Defining Defense: The 1985 Military Budget.

Put another way, contained in the U.S. defense budget is an average of $9.9 billion to support the security of each of the 13 European members of NATO, and $7.8 billion to support the security of each of our six allies in East Asia. While it is difficult exactly to compare expenditures in the foreign aid programs with those that happen to fall within the defense budget, these broad comparisons suggest that our assistance to Israel is actually less than a third as costly as the average amount we spend on other allies. And unlike other allies, Israel has never asked that American soldiers participate in its defense.

Israel is a democracy, and our one reliable ally in the Middle East. It is a willing partner in the peace process, and a country that shares many of the goals and values that are important to Americans. It is also an ally in trouble, a friend asking for our help. (See Figure 25).

FIGURE 25



SOURCE: Congressional Research Service.

It has a plan to get back on its feet, but needs a special effort on our part during the transitional period. Israel's economy is the foundation of its defense capability, and for this reason, the United States has a vital interest in extending the assistance needed to keep Israel strong.

BREAD FOR THE WORLD

STATEMENT OF FATHER WILLIAM J. BYRON, PRESIDENT, CATHOLIC UNIVERSITY, ON BEHALF OF BREAD FOR THE WORLD

ACCOMPANIED BY PAUL NELSON, POLICY ANALYST, BREAD FOR THE WORLD

ACTIVITIES OF BREAD FOR THE WORLD

Senator KASTEN. Our next witness is Father William J. Byron, who is the president of Catholic University, testifying today on behalf of Bread for the World. Father Byron is accompanied by Paul Nelson, policy analyst for Bread for the World.

Father Byron, you may proceed.

Father BYRON. Thank you, Mr. Chairman.

I am representing the views of Bread for the World which has 47,000 members across the country, and many of them in Wisconsin, of course. It is a vital organization that began more than a dozen years ago. It has brought together the concerns of Christians on the issue of hunger.

Our testimony focuses primarily on three topics: Maintaining and strengthening U.S. support for health assistance through USAID, the Child Survival Fund of UNICEF. The second point would be supporting the International Fund for Agricultural Development, IFAD, and contributing to a special fund within IFAD for aid to increase food production among peasant farmers in Africa. Third, restraining the growth of military and security assistance.

Bread for the World has long maintained that health aid is the most effective of USAID's functional accounts in reaching and providing lasting benefits to the poor majority of the developing countries. Research conducted by the Rural Development Institute of the University of Washington in 1984 finds health aid to be by far the most effective of the USAID accounts.

The review rates health aid consistently high in terms of benefits for poor families, costs per family benefited, and potential replicability to other areas in the recipient countries. The benefits of improved health aid for the productivity of individuals and the strength of entire economies are well documented.

Mr. Chairman, no other category of foreign assistance can match health aid's coherent strategy, record of successes, or potential for improving the lives and productivity of poor people.

USAID BUDGET

USAID's proposed allocation for fiscal year 1985 of the new Child Survival Fund, for which we testified last year, and the funds added last year for primary health care are an indication of the potential for further progress. Child survival funds are being used to support immunization and oral rehydration therapy projects in some 17 countries. UNICEF estimates that every $100 invested in this child health assistance can save the life of a child, which makes it especially important——

Senator KASTEN. Father, just repeat that statistic once more, I think that it is an important one.

Father BYRON. The estimate of UNICEF is that every $100 invested in this child health assistance can save the life of a child, and it makes it especially important that those Child Survival Funds be well spent.

Bread for the World is eager to join your subcommittee, Mr. Chairman, in scrutinizing the Child Survival Fund spending to ensure that it produces the greatest possible result.

As you know, the administration's budget request would reduce health aid programs sharply. The Child Survival Fund is zero in the 1986 budget request of the administration, and it was $25 million last year. UNICEF last year was $53.5 million, and the budget request is $27 million. USAID health, $223 million last year, and dropped to $146 million this year.

If money is tight for development aid, then taking funds out of the health oriented accounts is exactly the wrong way to go. So Bread for the World would urge this subcommittee, first, to maintain USAID health funding at $223 million, to the fiscal year 1985 level; second, add $25 million to the Child Survival Fund, appropriating $50 million for fiscal year 1986; and, third, support UNICEF's leadership role in the child survival revolution by increasing the U.S. contribution to UNICEF from $53.5 million to $60 million.

IFAD

A word now about IFAD. Famine in much of Africa has focused the attention of many in the United States on that continent's agricultural development. Outside AID efforts to help Africans increase food production are being scrutinized and reevaluated. Many are acknowledging that the large-scale agricultural development projects of the last three decades have often missed the mark, failing to focus on food crops, or on practical methods appropriate for growing African food crops at low cost, or on the peasant farmers who are the backbone of African agriculture.

One agricultural aid program, the International Fund for Agricultural Development, has shown that such aid is not only possible, it is practical, inexpensive, and a good investment. IFAD projects are carefully directed toward helping poor farmers and landless laborers remove the barriers that keep them from increasing their own productivity and incomes.

A USAID evaluation of 19 IFAD projects, released last January, reports that "IFAD's efforts to define, identify and reach the poor have been generally successful and that all the projects visited benefited small farmers and the landless." We note three important strengths of the IFAD projects.

First, IFAD projects work successfully with people whom other aid agencies sometimes write off as unreachable. In Bangladesh, a rural bank supported by IFAD loans provides credit to landless or near-landless people who have heretofore had no access to credit. The loans mean new opportunities and better earnings for the poor.

Second, IFAD projects support concrete, private initiatives that have the potential of producing lasting economic benefits and growth.

Third, When IFAD does work with governments, its projects stress concrete changes in government designed to benefit the poorest farmers. For example, in Mozambique, where investment has been concentrated on state farms, IFAD was able to persuade the government to place greater reliance on small landholders and invest $22.5 million in providing them with the necessary tools, seeds, and fertilizer.

While everyone is talking about the need for reforms of agricultural pricing and marketing in Africa and elsewhere, IFAD is quietly succeeding in generating such changes as part of a strategy to assist the rural poor, the world's greatest untapped resource of labor, skills, and enterprise.

Bread for the World would urge the subcommittee to take two steps: First, appropriate the sums needed for U.S. participation in the regular 3-year replenishment of IFAD for fiscal years 1986 through 1988; second, expand IFAD's role in Africa by approving a special U.S. contribution to a fund for additional aid to Africa.

Senator KASTEN. Father, within IFAD?

Father BYRON. Yes; but it is a supplement.

Senator KASTEN. You are not talking about the $75 million that AID is looking for a special African fund.

Father BYRON. No; we are really talking about an additional grant, presumably matched, as an increment with the other participating nations.

Senator KASTEN. We will get into the presumably matched business at the end of your testimony.

Father BYRON. All right.

IFAD's role in Africa is indeed making an impact, and a U.S. commitment over 3 years, which we are proposing, could be expected to attract contributions by other donors.

The United States should join with other donors in using IFAD as a vehicle to provide expert agricultural assistance to Africa. It costs about $400 to send 1 ton of wheat to northern Ethiopia to feed people facing starvation there, but IFAD estimates that it costs $200 on the average to help a farmer produce an additional ton of grain, not just for 1 year but in succeeding crop years as well. It seems that the United States really can't afford not to support IFAD.

Bread for the World opposes further increases in military aid and the Economic Support Fund. In 1980, military aid and the Economic Support Fund combined made up 40 percent of the $10 billion aid budget. In fiscal year 1985, the military and ESF aid took up over 60 percent of the $15 billion package, and again the direction is the same.

Senator KASTEN. Father, I am going to have to ask you to summarize.

Father BYRON. I have summarized.

[The prepared statement of Father Byron follows:]

bread for the world
a christian citizens movement in the usa

PREPARED STATEMENT OF REV. WILLIAM J. BYRON, S.J.
PRESIDENT
THE CATHOLIC UNIVERSITY OF AMERICA

Mr. Chairman and members of the subcommittee:

My name is William Byron, and I am President of the Catholic University of America. I am pleased to represent the views of Bread for the World before the subcommittee on Foreign Operations. Bread for the World is a Christian citizens movement of 47,000 members nationwide, dedicated to helping solve the causes of world hunger. Our testimony focuses primarily on three topics:

(1) maintaining and strengthening U.S. support for health assistance, through USAID, the Child Survival Fund, and UNICEF;
(2) supporting the International Fund for Agricultural Development (IFAD) and contributing to a special fund within IFAD for aid to increase food production among peasant farmers in Africa; and
(3) restraining the growth of military and security assistance.

Health Assistance: USAID's Most Effective Account

Mr Chairman, there are demonstrable differences in the quality and success of the various USAID development aid programs. Budgetary pressures mean that funding is short for development aid, and we believe that it makes sense to allocate development funding to programs that can produce results. In this instance that means allocating more USAID funds to health assistance.

Bread for the World has long maintained that health aid is the most effective of USAID's functional accounts in reaching and providing lasting benefits to the poor majority in developing countries. This year new evidence supports this conclusion, and argues that health is the bilateral account where available development funds should be invested. 1984 research by the Rural Development Institute (RDI) of the University of Washington, finds health aid to be by far the most effective of the USAID accounts. The RDI review of each project in the FY 1985 USAID portfolio presents some disturbing findings: "The quality of both major components [development assistance and the Economic Support Fund] of America's economic assistance has declined significantly, and that assistance now appears by any plausible measure to be less likely to meet the needs of the poor than at any time since our assessments began [in 1979]." (Rural Development Institute, The Quality of Foreign Aid, June, 1984, p. 1.)

Against this picture of a development aid program of declining effectiveness, the RDI review rates health aid consistently higher in terms of benefits for poor families, cost per family benefited, and potential replicability for other areas in the recipient country. The fact is that the use of primary health care strategies, and of the low-cost, low-technology child survival strategies of the Child Health Revolution have provided health aid with a strategy for people-oriented, practical, replicable projects with direct and lasting benefits for participants.

The benefits of improved health for the productivity of individuals and the strength of entire economies are well-documented, perhaps best in the UNICEF State of the World's Children report. Not only does health aid save lives, it also

- reduces the incidence of handicaps, physical and intellectual, that lower productivity by many in the developing world;
- increases the productivity of farmers and workers, as documented by studies of workers in settings ranging from rubber plants in Indonesia to farms in Paraguay;
- helps curb population growth by assuring parents that their smaller families will survive to support them in old age. In Sri Lanka, national nutritional and health programs have reduced infant mortality (deaths before age 1 per 1000 live births) from 70 to 39 since 1960. Along with the reductions in infant deaths have come declines in the birth rate as well. In fact, if every country in the developing world had an infant mortality rate and birth rate as low as Sri Lanka's there would be 7.5 million fewer deaths every year, and 35 million fewer births. (UNICEF, State of the World's Children, 1985, p. 22.)

Mr. Chairman, no other category of foreign assistance can match health aid's coherent strategy, record of successes, or potential for improving the lives and productivity of poor people. The establishment in FY 1985 of the Child Survival Fund, to funnel USAID resources to projects and agencies focused on reducing infant mortality, adds to the potential for improving the lives of the world's poorest people while encouraging government Ministries of Health to give higher priority to low-cost preventive health care for the poor majority of their populations.

USAID's proposed allocations for FY 1985 of the new Child Survival Fund monies and the funds added last year for primary health care are an indication of the potential for further progress. Child Survival Funds are being used to support immunization and oral rehydration therapy projects in some 17 countries. UNICEF estimates that every $100 invested in this child health assistance can save the life of a child. This makes it especially important that the Child Survival funds be well-spent. Bread for the World is eager to join your subcommittee, Mr. Chairman, in scrutinizing Child Survival Fund spending to ensure that it produces the greatest possible results.

We are also concerned that U.S. financial support for health and child survival activities not lag. The new priority being given to health aid within USAID - thanks to congressional initiatives to increase their funding - is only now beginning to take hold. Administrator McPherson has recently sent a cable to all USAID mission directors affirming the high priority being given the the health strategies that make up the Child Survival Revolution. This is the initiative from Aid/Washington that is needed to direct more attention in the field to promising health projects, and to cut back health funding now, when USAID has just put the agency's machinery into motion to generate more high quality health projects, would be a mistake.

Yet the administration's budget request would reduce health aid programs sharply:

	1985 CR	1986 BUDGET
CHILD SURVIVAL FUND	25.0	0
UNICEF	53.5	27.0
USAID HEALTH	223.0	146.0

(In millions of dollars)

If money is tight for development aid, then taking funds out of the health oriented accounts is exactly the wrong way to go. Bread for the World urges the subcommittee to:

- maintain USAID health funding at $223 million, the FY 1985 level;
- add $25 million to the Child Survival Fund, appropriating $50 million for FY 1986; and
- support UNICEF's leadership role in the Child Survival Revolution by increasing the U.S. contribution to UNICEF from $53.5 million to $60 million.

IFAD: The International Fund for Agricultural Development

The famine in much of Africa has focused the attention of many in the U.S. on that continent's agricultural development. Outside aid efforts to help Africans increase food production are being scrutinized and re-evaluated. Many are acknowledging that the large-scale "agricultural development" projects of the last two decades have often missed the mark, failing to focus on food crops, or on practical methods appropriate to growing African food crops at low cost, or on the peasant farmers who are the backbone of African agriculture.

One agricultural aid program, the International Fund for Agricultural Development (IFAD) has shown that such aid is not only possible, it is practical, inexpensive, and a good investment. IFAD projects are not schemes cooked up by outside advisers to increase the production of food. The are carefully directed toward helping poor farmers and landless laborers remove the barriers that keep them from increasing their own productivity and incomes.

A USAID evaluation of 19 IFAD projects, released in January, reports that "IFAD's efforts to define, identify and reach the poor have been generally successful and that all the projects visited benefited small farmers or the landless." (USAID, Evaluation Special Study No. 21, January 1985, p. vii.) The evaluation also notes, with remarkable candor, that this ability of IFAD to benefit extremely poor farmers and landless laborers was of interest to USAID because "other donors, including USAID, have had difficulty defining poverty, and thus in channelling productive assistance to particularly impoverished groups." (USAID, p. 10)

In proposing that the United States not only continue its support for IFAD but also seize upon IFAD as a vehicle for special, additional assistance to Africa, we note three important strengths of IFAD projects:

(1) IFAD projects work successfully with people whom other aid agencies sometimes write off as "unreachable." In Bangladesh, a rural bank supported by IFAD loans provides credit to landless or near-landless people who have heretofore had no access to credit. The loans mean new opportunities and better earnings for the poor, and the system of group responsibility for repayment has led to a repayment rate of 99%, far better than most credit assistance schemes serving wealthier clients.

(2) IFAD projects support concrete, private initiatives that have the potential of producing lasting economic benefits and growth. In Malawi, the system of private farmer cooperatives supported by IFAD has been credited with helping that country maintain its status as an exporter of maize in Africa.

(3) When IFAD does work with governments, its projects stress concrete changes in government policies designed to benefit the poorest farmers. In Mozambique, where investment has been concentrated on state farms, IFAD was able to persuade the government to place greater reliance on small land-holders and invest $22.5 million in providing them with the necessary tools, seeds, and fertilizer. Some 4,500 private traders were also allowed to resume their activities. In Madagascar, IFAD informed the government that it would not finance the Highlands Rice Projects unless the government lifted an ordinance which restricted markets and resulted in disincentives to farmers to produce. The ordinance was suspended, and the project subsequently approved.

While everyone is talking about the need for reforms of agricultural pricing and marketing in Africa and elsewhere, IFAD is quietly succeeding in generating such changes as part of a strategy to assist "the rural poor,...the world's greatest untapped resource of labor, skills, and enterprise." (IFAD, Lending Policies and Criteria, 1978, p. 1.)

IFAD's record and potential recommend it as the logical vehicle for agricultural aid, in Africa and elsewhere. Bread for the World urges the subcommittee to take two steps:

(1) Appropriate the sum needed for U.S. participation in the regular, three-year replenishment of IFAD for FY 1986-1988. International negotiations on the funding of IFAD are close to concluding an agreement on funding to be provided by the various donor countries under "burden-sharing" arrangements between OPEC and Western donors. The administration has made no budget request for IFAD, presumably because these negotiations were not yet concluded when their budget was submitted. When an agreement in principle has been reached, we urge the subcommittee to appropriate the U.S. contribution and re-affirm its support for IFAD.

(2) Expand IFAD's role in Africa by approving a special U.S. contribution to a fund for additional aid to Africa. A U.S. commitment of $180 million over three years, which we are proposing, could be expected to attract contributions by other donors. Seven European donors have already declared their willingness to make additional contributions. Belgium has already established a Third World Survival Fund of $167 million, with $58 million directed to East Africa in the next two years.

The U.S. should join with other donors in using IFAD as the vehicle to provide extra agricultural assistance to Africa. It costs about $400 to send a ton of wheat to northern Ethiopia to feed people facing starvation there. But IFAD estimates that it costs $200, on average, to help a farmer produce an additional ton of grain, not just for one year, but in succeeding crop years as well. The United States cannot afford not to support IFAD.

Military Aid and the Economic Support Fund

Bread for the World opposes further increases in military aid and the Economic Support Fund. In 1980, military aid and ESF combined made up 40% of the $10 billion aid budget. In FY 1985, military and ESF aid took up over 60% of the $15 billion package, and the FY 1986 budget proposes to increase funding for every military aid program and for ESF, totalling an additional $1.118 billion. Moreover, since FY 1981 the portion of the military aid budget that is provided on concessional terms has increased from near 15% to over three-quarters.

The grant military aid program, MAP, is of special concern because its recipients are primarily the developing countries of Asia, Africa, and Latin America. The administration's budget proposal of $949 million is a 17.8% increase that cannot be justified in light of other foreign aid priorities, and proposed freezes on programs for impoverished U.S. citizens.

Originally a source of short-term grants of aid to countries with urgent security needs, MAP provided $170 million to 4 countries in Fy 1981. Since 1981 MAP has grown to be a program of annually increased grants to virtually each of its over 30 recipients.

Each year that Congress fails to hold down MAP spending gives more momentum to the growth of an automatically expanding military grant program. Harry Shaw, the director of the security aid division at OMB under four administrations, told a House Foreign Affairs subcommittee last year that:

> The pressures for more aid are incessant. ...without some sense that a stern and skeptical Congress will challenge every dollar requested, OMB and the few allies it may find in resisting pressures for more security assistance will be overwhelmed.

These MAP increases hurt the world's poorest people by consuming an increasing proportion of the total funds available for foreign aid; by supporting governments that show little concern for the poor majority of their citizens, such as the Philippines, Sudan, and Zaire; and by encouraging governments to maintain larger military establishments than their economies can support, creating a perpetual burden on their budgets.

Without firmer control on MAP and other military aid spending, it will become impossible to maintain support for foreign aid among U.S. citizens who want to see their government provide aid that help promote the development and self-sufficiency of people in the developing countries.

CONGRESSIONAL SUPPORT FOR PROGRAMS

Senator KASTEN. Father, thank you very much. As you know, we worked with Senator Hatfield and others in adding $75 million for health and nutrition programs during the past year. We supported the Child Survival Fund, and I think we will again. I think that members of our subcommittee will ask to support the higher level, I am not sure if it is your level, of UNICEF.

From time to time, some of the people representing Bread for the World have been out in my State of Wisconsin. You suggested that you have members out there. I would hope that we could work together in terms of communicating to them the work that we are doing.

You are testifying here today, but you have not testified here before our subcommittee in the past.

Father BYRON. No.

GRAIN PRODUCTION ON AFRICAN CONTINENT

Senator KASTEN. I am pleased that you are here.

I just wanted to touch on one point which you brought up in terms of the estimate that it costs $200 on the average to help a farmer produce an additional ton of grain. I don't care about the dollar figure, but one of the problems that we have in most of the African Continent is the fact that they adopted a cheap food policy whereby bread in the cities is below market value. I don't know if you in any way are involved, I know that the administration and a number of us are trying to make it possible for someone to make a good, honest living being a farmer, and that means getting paid a reasonable price for producing your crops. In many countries, you can't own land, but even then if you don't get paid for producing your crops because the government has adopted essentially a cheap food policy so that you have a 5-cent or 10-cent loaf of bread in the city, and that means that there is no unrest in the city, but we are never going to get at what you are suggesting here in terms of the ability to make a living out of the farm.

Do you address that in any way in what you are doing? I know that you are primarily in the relief business.

Father BYRON. No.

Senator KASTEN. Are you also in the economic business?

Father BYRON. Yes; we are.

ECONOMICS OF FARMING

Senator KASTEN. To try to make it possible for someone to make a good, honest living out there on the farm in the rural areas where they don't have the radios and they don't have the newspapers, and frankly they might not be able to read. We have to make a change in that direction. Are you involved in that effort in any way?

Father BYRON. Yes; we are. Bread for the World is not a relief agency. Bread for the World is organized to try to influence policy that is going to focus on the ultimate solution which we see as the production of food in the food deficit nations.

We all know that food aid just going in in——

Senator KASTEN. You can argue that it is hurting.

Father BYRON. That is right, it can, and it could be depressing production as well as prices, and taking the incentives away. The extraordinary generosity that we have seen on the part of the American people in Ethiopia brings up the question: Are we going to have to do this every year?

Wouldn't it be wise to have the infrastructure, irrigation, and all of the things that are necessary for the production.

FREE ENTERPRISE NEEDED IN AFRICAN FARMING

Senator KASTEN. We can do the roads, and we can do the infrastructure, but somehow that farmer has got to be paid for what he produces.

Father BYRON. The farmers have to be influenced as this goes on, and the governments have to be influenced, and we would argue that IFAD is effective in influencing the policy. We say that IFAD is a good instrument for achieving that purpose.

Senator KASTEN. I look forward to working with you in that direction because I think that over the last year or two a number of leaders in the African countries have come to us saying: We have chosen the wrong route. It is not working. Mozambique and others are going to start to privatize, but more importantly they are starting to develop a reasonable policy on agricultural production, and this is something that we might be able to work together on because it is critical. There is no way in the world that we are going to start to produce food there if you don't get paid an honest wage for what you and your family are doing. It is not only private ownership of land, but it is how you get paid for what you produce.

Father BYRON. I can assure you that Bread for the World's support. I statutorily get off of the board, but your colleague Senator Danforth is one. This group would be inclined to that way of thinking, and our resources, our analytical resources and organizational resources are there to help.

Senator KASTEN. Thank you for your testimony here today.

AMERICAN-ARAB ANTI-DISCRIMINATION COMMITTEE

STATEMENT OF MARK MANSOUR, ASSISTANT TO THE NATIONAL CHAIRMAN, AMERICAN-ARAB ANTI-DISCRIMINATION COMMITTEE

ACTIVITIES OF COMMITTEE

Senator KASTEN. Our next witness is Mr. Mark Mansour, Assistant to the National Chairman of the American-Arab Anti-Discrimination Committee.

Mr. Mansour, welcome.

Mr. MANSOUR. Thank you, Mr. Chairman. I want to take this opportunity to thank you and the members of the subcommittee for inviting me to testify today.

The American-Arab Anti-Discrimination Committee is a nationwide service organization. We currently have over 13,000 members in about 50 chapters around the United States. Our National Chairman, James Abourezk, is a former member of this distinguished body.

We focus our efforts on the advancement of the civil and human rights of people of Arab descent, and the provision of whatever services are possible for our constituency. We seek in the course of that effort to combat anti-Arab stereotyping, and in doing so, we recognize the racism against any one ethnic group puts us all in jeopardy.

As a result, and as a policy, we condemn all forms of racism against anyone or any group. Our belief is that if blacks are not safe from racism, then neither are we. If Italians are subjected to ethnic slurs, none of us are immune from similar stereotypes. If Jews are under attack for being Jews, then we will soon come under attack for being Arabs.

We also believe that Arabs are the only remaining ethnic group in the United States that can still be freely defamed without any measurable outcry against this form of racism. We also believe that that sort of attack has caused a political condition which has established a situation that allows our relatives in Lebanon and other places are put in a position that they have suffered as a result of the Israeli occupation.

I would like to make the connection, if I might, and relate it to the issue that we are discussing today.

The tragic result of Israel's occupation of Lebanon, the West Bank, and Gaza derive from the persmissiveness shown to Israel by the Congress and the White House. The United States puts conditions on aid to Israel—not the conditions on aid to Israel, to the degree that it has other nations. It is a double standard, and it has allowed Israel to ignore to a great extent the human rights standards which we set up for ourselves and for our allies. There is, in effect, no punishment for their oppression of Lebanese and Palestinians, only rewards.

U.S. AID IN MIDDLE EAST

There are many instruments of foreign policy available to the United States in the Middle East, and foreign aid is one of them. Diplomacy, military force, and trade are others. We have seen the effectiveness of certain of these instruments, foreign aid included. Nevertheless, it remains a potentially valuable and effective vehicle for achieving our national interests.

We are not alone in the conviction that it is not being utilized with any degree of effectiveness in some cases, and being totally misused in others.

While we are scrutinizing every other item on our budget during this period of economic belt-tightening, most of the debate on aid to Israel will not be how much to cut, but how much to add. In a sense there is really very little debate in Congress on this issue.

U.S. ARMS AID TO ISRAEL

Let me, if I may, address one of the points which I think probably should be examined during the course of our debate on aid to Israel, or for that matter on aid to any other country, especially its military component.

Since 1978, we have witnessed numerous violations on the part of Israel of the conditions under which we export our military equipment. U.S. made weapons as part of the Arms Control Export Act can be used only for defensive purposes. Since February of this year specifically, Israel's iron-fist policy in south Lebanon has resulted in many civilian deaths. These actions undertaken by Israel are done so with U.S.-made weapons.

Aside from requiring that Israel put its economic house in order, Congress should also demand some sort of compliance on Israel's part with the dictates of the Foreign Military Sales Act.

Our foreign assistance in the Middle East can play a positive role if one would put into practice the ideals of justice and equality. We must attempt to do in the Middle East what is being attempted in Central and South America where support and aid to friendly nations is contingent upon progress in the area of human rights. Too often we lose sight of the harsh human consequences of decisions made in Washington. We should open our eyes to the consequences of Israel's actions in Lebanon: Innocent blood is being shed, Israeli blood, Palestinian blood, and Lebanese blood. The strongest single military power in the region is not surprisingly responsible for the largest share of this.

In Lebanon, the people under occupation are sacrificing young men, women, children in the face of the heavily armed Israeli occupying forces.

Granted, Israel has stated on several occasions in the past, specifically in the course of its 1982 invasion, that the invasion was carried for defensive purposes. Yet, if you check Edward Walsh in the Post during the invasion, and the several articles he has written subsequently, there were three occasions that he cited where rockets were launched by undetermined forces into northern Israel, none of which resulted in serious casualties. In fact, Shlomo Argov, the Israeli Ambassador who was shot in London, has stated on several occasions in the past that the excuse that Israel used, namely, the attempted assassination of Ambassador Argov, was an empty excuse, and that the Israeli invasion under these circumstances was not justified.

Under these conditions, one would have to say that Israel's use of American weaponry during the course of the invasion was a violation of the Arms Export Control Act.

REQUEST FOR REALISTIC U.S. AID POLICY

Rather than sit here and ask for the elimination of aid to Israel, we would rather come forth and ask for a more realistic policy, that is, assess our aid on the basis of Israel's compliance with the dictates that we have set forth for foreign aid, specifically the military component.

Our office in Washington has received a number of urgent Telex messages from Lebanon which have described the results of some of Israel's measures in the area. Hospitals and clinics have been stormed, and patients have been interrogated and taken away by force. Medical personnel have been harrassed and beaten. Noncombatant civilians are rounded up by Israeli troops and abducted. The southern region is under blockade, and whole villages have been put under curfew or attacked by Israeli forces.

Israel's actions in the region have created the conditions for unpopular coexistence, and unconditional endorsement without any effort to hold Israel accountable for the violations of the Arms Export Control Act have resulted in a policy in Lebanon especially, and in the Middle East in general, which does not promote peace in the region or advance U.S. interests.

Arab-Americans will continue their efforts to promote a U.S. foreign policy that does not ignore the rights or the sensibilities of the Arab countries and people of the Middle East. The reason we are coming forth is because all of us have relatives there. With every passing day that brings more cries of help from relatives and others in Lebanon who are connected with our organization, we have decided to strengthen our resolve to do our part in our communities around the country and in the halls of Congress to widen the debate on U.S. expenditures in the Middle East.

What we are calling for is a constructive discussion of Israel and all other countries in the region, and we urge Americans of all backgrounds to join us in that effort.

Thank you.

Senator KASTEN. Thank you very much, Mr. Mansour, for your testimony. We thank you for your contribution to our hearing this morning, and we look forward to working with you in the future.

Mr. MANSOUR. Thank you very much.

[The prepared statement of Mr. Mansour follows:]

PREPARED STATEMENT OF DR. OMAR KADER

EXECUTIVE DIRECTOR

AMERICAN-ARAB ANTI-DISCRIMINATION COMMITTEE

Mr. Chairman, I want to take this opportunity to thank you and the members of the Subcommittee for inviting me to testify today.

The American-Arab Anti Discrimination Committee is a nationwide service organization. We currently have over 13,000 members in about fifty chapters around the United States. Our National Chairman, James Abourezk, is a former member of this distinguished body.

We try to focus our efforts on the advancement of the civil and human rights of people of Arab descent, and the provision of whatever services are possible for our constituency. We seek to combat anti-Arab stereotyping, and in doing so, we also recognize that racism against any one ethnic group puts us all in jeopardy. As a result, and as a policy, we condemn all forms of racism against anyone or any group. Our belief is that if Blacks are not safe from racism, then neither are we. If Italians are subjected to ethnic slurs, none of us are immune from similar stereotypes. If Jews are under attack for being Jews, then we will soon come under attack for being Arabs.

We believe that Arabs are the last members of any ethnic group in the United States to be freely defamed without any measurable outcry against this form of racism. We also believe that because of this kind of attack on us as an ethnic group, a political condition has been established which allows our brethren, our relatives, our people in Lebanon and in Palestine to be imprisoned, maimed and killed by Israel.

I would like to make the connection for you if I might. The bloody results of Israel's illegal occupation of Lebanon, the West Bank and Gaza derive from the permissiveness shown to Israel by the Congress and the White House. The United States puts conditions on aid to virtually every country with which we deal, except for Israel. This double standard allows Israel to laugh at the human rights standards which we set up for ourselves and for our allies. There is, in effect, no punishment for their oppression of Lebanese and Palestinians--only rewards.

There are many instruments of foreign policy available to the United States in the Middle East.* Among these are diplomacy, military force, trade and foreign aid. As we have seen the varied effectiveness of certain of these instruments, foreign aid remains a potentially valuable and effective vehicle for achieving our national interests. However, I am not alone in the conviction that it is not being utilized with any degree of effectiveness in some cases, and being totally misused in others.

~~Unfortunately~~, while every other item on the budget is being closely scrutinized during this period of economic belt-tightening, most of the "debate" on aid to Israel will be not on how much to cut, but how much to add.*Indeed there is no evidence of debate among members on this issue.

In his forthcoming book, Paul Findley observes our self-inflicted censorship on the subject of aid to Israel. And in view of the prevailing lopsidedness of the "debate," the former Congressman writes of potential critics of current policy:

> "Instead of having their arguments and opinions judged on merit, critics of Israel suddenly find their motivations, their integrity, and basic moral values called into question. No matter how moderate their criticism, they may be characterized as pawns of the oil lobby, apologists for Arab terrorists, or even anti-Semitic."

And we ask that you, as members of Congress, consider the merit of our arguments. In the absence of open debate, we foresee tragic consequences for this country.

Rather than promoting the cause of peace in the Middle East, our foreign aid dollars are contributing to continued violence, suffering and the erosion of our credibility and influence in that critical area of the world. And yet, we continue to funnel ever-increasing amounts of money into that region without a clear objective in mind.

The consequences are tragic, not only for the people living in that region. It also an injustice for millions of Americans. What justification is there for arming Israel while asking our poor and elderly to take cuts in their basic benefits? What is the logic of abandoning American farmers who are in dire financial straits while shoring up a mismanaged Israeli economy whose annual inflation rate has soared past 1,000 percent.

As a representative of the Arab-American community it is my duty to offer our perspective and speak out in opposition to the huge aid packages given to Israel because our community is harmed directly by Israel's policies.

ADC, a membership organization for Americans of Arab descent and others who share our concerns, has an abiding interest in the actions of our government in the Middle east. Our members have families and deep roots there; all of us are committed to the achievement of peace and justice for all in the region.

It is our civic duty to speak out against the human rights abuses Israel commits against the Arab people in all the occupied territories. It is our duty to cry out in anger and pain when Israel invades and occupies Lebanon -- and illegally uses U.S. weapons in the process. In short, although our voice and influence is eclipsed by Americans who oppose Arab rights, Arab-Americans are morally bound to broaden, and participate in, the debate on aid to Israel and to encourage other Americans to do the same.

There are other reasons to oppose U.S. aid to Israel in addition to the moral repugnance of Israel's policies--its disregard for the political and human rights of the Palestinians and other Arabs in their own lands. If denial of the very fundamental rights which we as Americans hold so dear is intended to insure America's long-term interests in the Middle East, it is a failure.

The most obvious failure of U.S. Middle East policy has been its unconditional political, military and economic support of Israel. The practice of keeping Israel on our foreign aid welfare roll has served as a disincentive to the achievement of a peaceful and just solution to the problems of the Middle East. Israel behaves in the region without regard for U.S interests or sensitivity to the people of the region. Its violation of the U.S.-sponsored cease-fire of July 1981 and its current occupation of south Lebanon are exemplary in this regard. And its cavalier behavior at the cost of thousands of civilian lives has been fueled by almost unlimited U.S. funds.

It is time to bring the yearly giveaway to Israel under control, but this cannot, and should not be accomplished without a thorough public debate. In the past, groups opposed to Arab rights have succeeded in large part in obfuscating realities and stifling debate on aid to Israel. This has had the unfortunate effect of leaving an impressionable American public with the false notion that unlimited aid to Israel is synonymous with sound foreign policy. This is not true for a number of reasons.

First, Israel has repeatedly acted in deliberate opposition to U.S. interests. For example, it has ignored U.S. requests to stop building settlements on occupied Arab land. The construction of 114 such settlements and the harsh treatment of the local population by Israeli authorities violates international law. Israel has also refused to negotiate in good faith the issue of Palestinian autonomy in the occupied territories, as agreed upon in the Camp David Accords. And let us not forget that Israel rejected the September 1, 1982 Reagan peace plan as soon as it was announced.

The government of Israel has been repeatedly cited in the State Department's annual human rights report for violating the rights of Palestinians in the West Bank and Gaza Strip. Israel's occupation of south Lebanon has resulted in yet untold Lebanese and Palestinian civilian deaths and injuries. The destruction of agricultural land and of dwellings has seriously crippled the social and economic life of the people. This and bitter results of Israel's unprovoked 1982 invasion of Lebanon will be felt in other parts of the Middle East as well for a long time to come. Are these the seeds we intend to sow when we distribute American to Israel?

The United States can still claim several dependable allies in the Middle East: Jordan, Egypt, Saudi Arabia and the Arab Gulf states have strong links with the United States. Significantly, we share one of our longest-standing international relationship with Morocco, dating as far back as 1784. And the United States has a higher level of military coordination with Morocco than with Israel. But the U.S. has strained its relationships with most of these countries nearly to the breaking point with its indulgent support of an outlaw Israel. How do we expect our friends in the area to support our foreign policy when we fund Israeli occupation of Arab land and give Israel weapons to use against Arab civilians?

How can we refer to Israel as a "dependable ally" in light of its actions in the past and present? Israeli planes attacked the U.S.S. Liberty in the Mediterranean during the June 1967 war, killing thirty-four of its crew. The U.S. government chose not to make an issue out of the matter. More recent Israeli adventures include support for Iran in the Gulf war, supplying repressive forces in Central America with weapons and military training and selling U.S.-made cluster bombs to the pro-Soviet regime in Ethiopia. Israel is also committed to providing considerable support to South Africa, and it is widely acknowledged that this includes nuclear weapons research and technology.

For these and other reasons, many Americans ought to have serious questions about the nature and scope of the U.S.-Israel relationship. Israel's disregard for the most basic national rights of its neighbors and its continued insistence on thwarting American long-term interests in the region have become a liability to the United States, auguring the loss of its remaining friends in the Middle East.

Our country would not have fallen into this senseless Middle East policy without the propagation and general acceptance of several myths about the nature and justification of the U.S.-Israel relationship. A good first step toward reassessing this relationship is a closer examination of the myths. Here are a few of them:

"Israel is our only dependable ally in the Middle East."

As I stated earlier, we have friendly relations with many of the Arab countries in the region. Morocco is the closest non-NATO military partner in the region and has closely cooperated in exercises, use of facilities and in other areas. The United States has close , historical, cultural, political and economic ties with many other Arab countries--including Palestine and Lebanon, but these are seriously contradicted by unquestioning support for Israel.

"We share a common Judeo-Christian heritage."

There are three major monotheistic religions -- Judaism, Christianity and Islam-- all of which are pre-dated by Zoroastrianism, also originating in the Middle East. Both Christianity and Islam grew out of common traditions. Judaism also derives from the same ancient Semitic pantheon and has contributed much to the Christian and Muslim heritage. The three religions have contributed greatly to western civilization. We offend our Muslim friends and do injustice to the rich history of western culture when we exclude Islam as a source and purveyor of our civilization.

"We owe Israel our support because of the suffering endured by the Jewish people."

We should all be sensitive to the hardships endured by the Jewish people, especially during the Holocaust. Their victimization in Western society is an indelible part of a shared human history. However, for the past decades it has been the Palestinian people who have suffered continuous dispossession and oppression of a nature that suggests genocidal intent. Let us now offer our compassion to these new victims, who yearn for peace and a homeland.

"Israel must be given military aid in order to defend American interests in the region."

Far from stemming Soviet influence in the Middle East, which is the prime goal of the United States, Israel has made it necessary for some of the Arab regimes to seek Soviet military aid. For example, as a result of the Israeli invasion of Lebanon and its attacks on Syrian positions, Syria was massively re-armed by the USSR with state-of-the-art anti-aircraft systems, vastly improving its pre-invasion arsenal and increasing the pace of the arms race in the region. Even Jordan has flirted with such alternatives after having been spurned by the United States.

"Israel is the only democratic government in the Middle East."

How democratic can a country be when it only affords Jews full participation and benefits? Palestinians who were driven out of their homeland have not been permitted to return to their homes in Israel. Hundreds of Arab villages have been destroyed or replaced by habitations with Jewish names and dwellers. Arab and Jewish children in Israeli schools are exposed to racist images of Arabs and Arab culture. Israel's laws and practices make it a Jewish state, but 17 percent of Israel's population is Arab. How can these non-Jewish residents feel that they are living in a "democracy." The situation is even worse on the occupied West Bank and Gaza Strip, where the mere display of the Palestinian national colors is grounds for arrest, and where houses are demolished for unsubstantiated "security offenses."

These are just a few of the myths about Israel which have prevented the United States from dealing with all the countries and peoples of the Middle East with fairness and openmindedness. Such misconceptions have also stood in the way of setting any sort of limits on aid to Israel. For instance, Israel has repeatedly violated the terms of the Foreign Military Sales Act by using U.S.-made weapons for offensive purposes. Here, the June 1981 bombing of the Iraqi nuclear power plant comes to mind. Of course, on these issues there are a few courageous and pricipled critics. Yet Congress and successive administrations have ultimately turned a blind eye.

We have ignored the increasing levels of waste and corruption which have contributed to Israel's economic crisis. A book recently published in Israel, entitled CASHING IN, details numerous instances of outright illegal behavior and abuse of privilege by Israeli cabinet ministers. Authors Shlomo Frankel, a journalist, and Shimshon Bichler, an economist, discuss widespread irregularities in the Israeli military-industrial complex: "The weapons industry in Israel, contrary to popular belief, is mostly privately pwned...many earn vast commissions on every bullet, every shell and piece of ordnance brought into the country."

When will the United States begin looking more critically toward its own interests? Israel receives more than $10 million per day from American taxpayers, nearly $1,100 each year for every Israeli citizen. Nearly all of this aid is now being distributed by the U.S. in grant form. While we debate every aspect of aid to our farmers, our college students, our Vietnam veterans, our elderly and our homeless, we are prepared to offer Israel unlimited assistance without any semblence of serious discussion.

When will the United States begin to enforce its own foreign aid-related laws when Israel's violations are in question? Why isn't Israel subject to the same accountability we expect from everyone else?

I submit that, at present, aid to Israel is not serving United States interests and is thus being squandered. American credibility in the Middle East has been eroded, and peace is as distant as ever.

A consensus is building in America which presents United States policy toward Israel as out of step with the changing conditions in the area. I mention only one such example from a book by Peter Grose, A Changing Israel, published by the Council on Foreign Relations. Grose states that:

> Increasingly, Americans and Israelis do not seem to understand each other.
>
> There are many reasons for this. A major factor is the residue of outmoded thinking on both sides. Assumptions held by each other may once have been justified but no longer hold true. Policies and attitudes are lagging behind reality. Social, political and ideological changes within Israel

as, indeed, across the whole Middle East have yet to be reflected in American attitudes and policy.

I will mention just two of the fundamental changes that Grose states have occurred in the last decade which contribute to the failure of American policymakers to properly assess relations with Israel.

> --Today, the picture of a "nation under siege" has paled before a new self-image of Israel as a regional superpower, a military bastion, a "surrogate" for Western interests against anarchy and radicalism percieved across the Middle East. The choice of whether or not to join the club of world nuclear powers is now presumed to be a political, not a technical, decision.
>
> --The vision of economic self-sufficiency, toward which the state was building in its first two decades, has vanished. Israel has become heavily dependent upon the military and economic support of a foreign power, the United States.

These and many other observations have changed the nature of the relationship in reality, but has yet to be reflected in policy. The continued policies of the past just do not address existing conditions.

U.S. foreign assistance in the Middle East must play a positive role, one which puts into practice the American ideals of justice and equality. We must attempt to do in the Middle East what is being attempted in Central and South America, where support and aid for friendly nations are contingent upon progress in the area of human rights.

Too often we lose sight of the harsh human consequences of decisions made in Washington. It is time for those who support unlimited aid to Israel to open their eyes to the consequences of Israel's unrestrained actions. Innocent blood is being shed -- the blood of Palestinians, Lebananese and Israelis. And the strongest single military power in the region is, not surprisingly, responsible for the largest share of the bloodshed.

Look at what is happening in Lebanon. A people under occupation is sacrificing its young men, its women and children in the face of an intransigent, heavily-armed Israeli occupying force. Israel's "iron fist" is crushing the very Lebanese who welcomed them and threw flower petals and rice as their tanks rolled through their villages almost three years ago.

My office in Washington has received urgent telex messages from Lebanon describing the horror of Israel's harsh measures. Hospitals and clinics are stormed and patients are interrogated and taken away by force. Medical personnel are harassed and beaten. Non-combatant civilians are rounded up by Israeli troops and abducted. The southern region is under blockade. Whole villages are put under curfew or attacked by Israeli forces.

Clearly, this sort of activity does not promote peace in the region or advance U.S. interests.

Arab-Americans will continue their efforts to promote a U.S. foreign policy that does not ignore the rights and the sensibilities of the Arab countries and people of the Middle East. With every passing day that brings more cries of help from our people in Lebanon, Palestine and other areas, we strengthen our resolve to do our part in our communities around the country and in the halls of Congress to widen the debate on U.S. expenditures in the Middle East. And we urge Americans of all backgrounds to join us.

ENVIRONMENTAL POLICY INSTITUTE

STATEMENT OF BRENT BLACKWELDER, DIRECTOR, INTERNATIONAL RESOURCES PROJECT, ENVIRONMENTAL POLICY INSTITUTE

CONCERNS ABOUT GLOBAL DETERIORATION

Senator KASTEN. It is my understanding that Mr. Rich and Mr. Blackwelder will testify together.

Mr. Bruce N. Rich, Natural Resources Defense Council, and Mr. Brent Blackwelder who is the Director of International Resources Project, Environmental Policy Institute.

Who would like to begin?

Mr. BLACKWELDER. Mr. Chairman, we are very happy to have the opportunity to testify again, and we wish to commend the subcommittee for your report last year in which you urged the World Bank to pay more attention to environmental problems.

Senator KASTEN. That was because of your help and advice. We are happy to try to help.

Mr. BLACKWELDER. We commend you for that.

We are very concerned about the alarming trends in global deterioration such as decertification, accelerated loss of tropical forests, the elimination of lands of important scientific and educational value, the loss of biological diversity, the irresponsible manufacture and use of pesticides, and even potential changes in the Earth's climate.

We are concerned that the banks, rather than being part of the solution to these serious problems, have actually been exacerbating the problems as a result of some of the projects that they have funded.

CASH CROPS FOR EXPORT

Indeed, some of the policies such as cash crops for export have resulted in such ironies as the growing of carnations and strawberries within 25 kilometers of mass starvation. These products are not for local use but clearly for export to Europe.

We are not just advocating that the banks put on a little window dressing for elite environmentalists. We firmly believe that development assistance should leave those directly affected better off than before, but in too many cases those most directly impacted have been left worse off. They have been ravaged with disease, displaced, and even faced cultural annihilation.

STEPS TO IMPROVE SOIL MANAGEMENT PROBLEMS

The very success of development projects has been undermined by not paying attention to soil conditions or drainage requirements in irrigation. As a result, some 25 million hectares of land around the world now lie salinized as a result of improper irrigation. Destruction of watersheds around reservoirs has made a mockery of the claim that hydropower is a renewable resource.

We have attached to our testimony, for the record, a brief article from Engineering News-Record pointing out that large scale water projects have made no difference in the famine in Africa, and this is admitted by the engineers themselves, not by conservationists.

So we think there is a pressing need to get at the root causes, and the approach that we have been taking in the past is inappropriate. Thus, we urge the committee to take the following steps: To in some way condition assistance so that aid is shifted away from what has been the customary approach to large scale development, and into the kinds of environmental restoration and rehabilitation that is essential if we are going to take charge of these problems.

Senator KASTEN. I didn't understand you. Did you say, "condition assistance?"

Mr. BLACKWELDER. That is right.

Senator KASTEN. Do you mean fence it?

Mr. BLACKWELDER. I think that if the banks are not willing to make a substantial shift in the kinds of projects they implement toward the following types of activities: reforestation, restoration of destroyed water sheds, protection of crucial forest areas, dealing with nutrition, population stabilization, the essential resource questions. If we don't have a substantial portion of their budgets committed in these areas, then we would have to come to the conclusion that the aid is doing more harm than good.

On the other hand, if they can be moved in that direction, we believe that it is essential—they can be an important role in arresting these serious and alarming trends in the environmental deterioration around the world.

Just to give an example, in the energy area, in my testimony I point out that the World Bank and the Inter-American Development Bank, when it comes to energy, single-mindedly think of hydropower development. We propose at least-cost strategy. They propose practically none of their budget to energy efficiency improvements. To give one example, you could dramatically increase the efficiency of steel production and have a 1-year payback, according to reports of the World Bank itself, yet investments are not made in quick paybacks, they are made in projects that have stretch-out periods that adversely affect the indigenous people and that eliminate tropical forests.

That is the kind of change that we would like to see, and if it doesn't occur, then I think that we can no longer support funding. If it can occur, then there is a role for the banks, for example, in this energy area.

I also want to say that we greatly appreciate your concern about the World Bank's handling of the Polonoroeste resettlement scheme in the Amazon. I will let Mr. Rich describe more of that but we commend the committee for its action there.

[The prepared statement of Mr. Blackwelder follows:]

ENVIRONMENTAL POLICY INSTITUTE

PREPARED STATEMENT OF DR. BRENT BLACKWELDER

DIRECTOR OF INTERNATIONAL RESOURCE PROJECT

The Environmental Policy Institute appreciates the opportunity to testify once again before the Subcommittee on Foreign Operations. We wish to commend the Subcommittee for the direction provided in last year's committee report concerning the need on the part of the World Bank to pay more attention to environment problems associated with its projects and to provide more adequate staffing with which to address these issues.

The Environmental Policy Institute is concerned about the alarming trends in deterioration of the global environment: rampant desertification in Africa, accelerated loss of tropical forests, destruction of areas of scientific and education value, loss of biological diversity, irresponsible use and manufacture of pesticides, and potential changes in the earth's climate. The multilateral development banks have a crucial role to play in addressing these serious questions, but far too often they are compounding the problems instead of providing the solutions. In the process they are wasting large amounts of U.S. tax dollars. We believe that a major shift must occur in the types of projects the banks fund -- a shift away from large-scale development projects and into reforestation, watershed restoration, and energy efficiency improvements.

What we are advocating is not just a little environmental window dressing for elitists. We firmly believe that development assistance should leave those directly affected better off than before. In too many cases those impacted most directly have been ravaged with disease, displaced, and have even faced cultural annihilation. The very success of development projects has been underminded by not paying attention to soil conditions or drainage requirements in irrigation. Twenty-five million hectares of land around the world now lie salinized as a result of improper irrigation. Destruction of watersheds around reservoirs has shortened their lifespans and made a mockery of the claim that hydropower is "renewable" energy.

For example, the attached article from Engineering News Record quotes the engineers themselves as admitting that big water projects have done nothing to avert Africa's famine. It's time to rethink what kinds of projects we are building with U.S. development assistance. There is a pressing need to get at the root causes of the famine which go far beyond the cyclical drought. A multiplicity of small-scale efforts at controlling desertification and stabilizing the population must begin quickly. Agricultural efforts cannot continue to follow the pattern of cash crops for export that has led to such ironies as the growing of strawberries and carnations for shipment to Europe within 25 kilometers of significant starvation. Unfortunatley, in conversation with a top World Bank official last year, conservationists were told that the Bank doesn't like to deal with a batch of small projects, even though these may be very successful and cost effective. It's too much of a management headache, we were informed. The Environmental Policy Institute submits that the time for dramatic alteration of this attitude has come.

Both the World Bank and the Inter-American Development Bank approach the question of energy supply as one of maximizing the amount of hydropower production as a way of reducing oil imports. They really don't prepare a least-cost energy analysis and search for the best mix of energy alternatives despite some of their own reports on the efficacy of such alternatives. Thus, they spend relatively little money on energy efficiency improvements even though such investments have quick payback periods and minimal social and environmental impacts in contrast with big dams. For example, China uses roughly twice as much energy to produce a ton steel as Italy, Spain or Germany. An investment in modernizing China's steel production would save 10% of the energy currently used and would pay for itself in one year, according to a World Bank report (Energy Efficiency in the Steel Industry). Yet the Bank would appear to be more interested in major hydropower schemes for China.

To give another example, vast increases in the efficiency of lighting are possible so that the Third World does not repeat the waste of the United States. In our country the efficiency of lighting could be doubled, thereby saving more energy than is produced by all of our hydrodams and nuclear power plants put together. The World Bank and the Inter-American Development Bank could be real catalysts when it comes to implementing least cost energy programs that would make an instant difference in the economies of Third World nations.

Conservationists and human rights organizations had an opportunity earlier this year to meet with the Inter-American Development Bank over the proposed Amazon jungle highway in Acre. Despite our cogent input and over the objections of the U.S. director to the IDB, the Bank approved the highway. This project will potentially repeat the disastrous experience of the World Bank with the Polonoreste highway and resettlement scheme in an adjacent area of the Amazon jungle. The Polonorests project has resulted in the elimination of tropical moist forest, the failure of agriculture as a result of poor soils, and initiation of warfare between settlers and indigenous tribes whose preserves were being infringed.

We greatly appreciate the Chairman's concern about the World Bank's handling of this project and wish to commend the Subcommittee for its responsiveness. These two projects illustrate the worst sort of development assistance and are 180 degrees opposite the type of projects which could really benefit many people without adverse consequences.

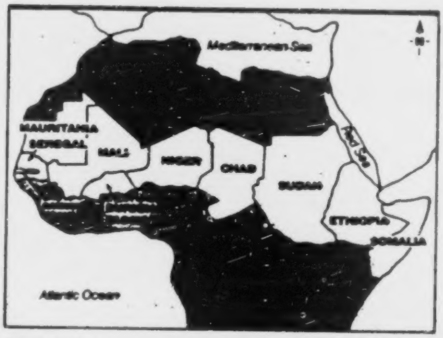
We have reviewed the reply provided by the U.S. Treasury to the Committee's directive which notes that no increase in staff professionals is necessary to address environmental questions. While 2700 professionals at the Bank are more than a sufficient number, the present mix of disciplines is inadequate for a thorough examination of natural resource components of project, social impacts, health concerns, and a full range of alternatives. It has been more than two years since specific Congressional oversight on the multilateral development banks produced evidence of a need for change. But, as yet, we cannot discern at the World Bank anything more than a willingness to talk with us. We are interested in results, and business goes on at the Bank as usual.

Accordingly, we urge that the Committee condition any appropriations to the multilateral development banks upon their willingness to devote a very substantial portion of their program to the urgently needed projects outlined above. Unless the banks themselves are willing and see the need to move in this direction, then development assistance from the U.S. can end up doing more harm than good.

The McGraw-Hill Construction Weekly—January 17, 1985

Big irrigation projects fail at feeding Africa

Despite billions of dollars of aid poured into the drought-plagued countries of sub-Saharan Africa since the mid-1970s, the region is starving to death again. Close to 70% of black Africans are farmers. Yet large irrigation and agricultural projects built since the 1960s have failed to relieve the recurrent hunger spasms. The widely recommended shift to small schemes fitting modern technology to Africa's tribal culture and nomadic lifestyle has been frustrated by western politics, lack of coordination locally and by the encroaching desert.



Drought-stricken countries of the Sahel and East Africa are suffering from famine partly because of failed agricultural projects.

This bleak picture was drawn by international water experts interviewed by ENR in the past two weeks. Because of the highly political basis for development projects in Africa, most of the engineers and hydrologists insisted on anonymity. The widely described horror of starvation is likely to lead to water projects in more fertile regions, work for which most of the experts interviewed will be competing.

The overriding concern now is providing food for the 14 million Africans likely to be affected by famine this year. The hardest-hit areas are in East Africa and the Sahel—Mauritania, Gambia, Senegal, Mali, Niger, Chad and Burkina Faso. President Reagan recently proposed that U.S. food aid in 1985 be increased to more than $1 billion, enough to supply half of the 3 million tons of food needed to feed famine victims. Beyond the food shipments, U.S. help under a "Food for Progress" program proposed by the White House would be directed to African countries that adopt "adequate price levels for agricultural production based on market principles, improved rural infrastructure and private-sector involvement."

Big failures. Whether that will mean more big dams, canals and complex drainage systems remains to be seen. In an apparent shift, M. Peter McPherson, administrator of the U.S. Agency for International Development, has called for a program of training and research into new strains of high-yield grains and "much more work in dry-land [nonirrigated] agriculture."

None of the water experts contacted could point to any large agricultural projects built over the past 10 years in black Africa that have made a dent in the current famine. "Africa has borne the brunt of a lot of bad advice, bad engineering and bad intentions and they are paying the price for it now," says a U.S. engineer who is the area manager for Africa at a major international water resources consulting firm.

After living and working there for 16 years, the engineering executive says unhesitatingly, "Most of the bureaucratic fumbling is in the developed world—the old colonial powers." The approach of the international lending agencies has been wrong for a long time, he adds. "The concepts generally have been large-scale agricultural developments in areas where nobody was a farmer or knew anything about farming."

Awash in money. Following the last major famine in the mid-1970s, individual donor countries and development agencies poured money and advice into Africa. Aid peaked between 1980 and 1982 at $13 billion a year, according to the World Bank. High borrowing and a temporary jump in prices for Africa's mineral and cash-crop commodities led

spending went for training, maintenance or repair of projects. Agricultural investment focused largely on cash crops.

The election of a pro-French government in Burkina Faso (formerly Upper Volta) brought external aid in 1982 to a level 60% more than the entire national budget had been previously. More than 200 aid agencies were permanently registered in the capital at Ouagadougou. And "every agency had its own pet technique to try out on the farmer," says a government official there.

The major countries of the Sahel received about $7.5 billion in aid from 1975 to 1980. About a quarter of that was spent on agriculture. In the past few years, political problems and declining interest among lenders have slowed investment in the region to a trickle. "Ev-

the construction boom. Big industrial schemes, highways and largely urban-oriented projects predominated. Little

erybody was talking but nobody was doing anything," says an executive at another international engineering company.

Bare facts. Sub-Saharan Africa has had the slowest growth in food production and the highest population growth rate of any region for the past 20 years. Deforestation and erosion are ruining already delicate soils. Rainfall in the Sahel has been constant over the past five years but the storms that once filled reservoirs have been replaced by less intense rainfall that quickly evaporates. The Sahara is creeping south, claiming an area of about the size of New York State every 10 years.

"The sand in the Sahel has absorbed all the money and the human effort put into it," says a dam designer with an international assistance agency. The same dust storms that annually rob some 400 million tons of eroded soil from the Sahel also have sapped the will of many experienced water experts working in Africa. Says a French engineer, "Most of us think it's hopeless."

A World Bank report concludes that major investment in the Sahelian belt should stop in all but the most fertile areas and that the nomadic desert populations should be moved to the south. That matches an assessment by an engineering executive working in Africa that "no one is interested in funding projects in the Sahel anymore and the local people have given up." ■

Natural Resources Defense Council

STATEMENT OF BRUCE N. RICH, NATURAL RESOURCES DEFENSE COUNCIL

AID TO MULTILATERAL BANKS

Mr. Rich. Mr. Chairman, I appreciate very much the opportunity to appear before the subcommittee today concerning appropriations for the multilateral banks in fiscal year 1986.

I am an attorney with the International Program of the Natural Resources Defense Council. I am testifying today on behalf of NRDC and five other national environmental organizations with more than 5 million members and supporters nationwide.

Senator Kasten. Like Father George, you have some in Wisconsin.

Mr. Rich. Yes.

These organizations also wish to express their thanks for the concern, and the interest that the chairman and the subcommittee have shown in the last year in promoting improved attention by the multilateral banks to environmental aspects of MDB activities, both through last year's report language and through the vigor with which the chairman of the subcommittee has pursued inquiries to the World Bank from concerned organizations in the United States, Brazil, and other countries concerning the adverse effects of this huge World Bank regional development program in northwest Brazil.

MULTIDEVELOPMENT BANK ACTIVITIES

In my prepared statement, starting on page 4, I summarize some of the highlights of congressional and administration concerns with ecological aspects of multidevelopment bank activities over the past 2 years. I won't go into great detail about that, but I will just mention that there have been at least a dozen congressional hearings over the past 22 months where the question of environmental management and multilateral bank projects has been raised as an issue, and six of these have been special oversight hearings.

The administration has also shown increasing concern. In fact, last September, the Treasury Department endorsed a series of 19 environmental policy recommendations to be promoted in the multilateral banks through the U.S. Executive Directors that were drawn up by the House Banking Subcommittee on International Development Institutions, and Finance.

Finally, on January 23 of this year, for the first time, a U.S. director of a multilateral bank actually abstained from voting in favor of a proposed loan on what were environmental grounds. I will go into more detail about that, too, in just a moment.

Yet, in spite of scrutiny by the Congress, the administration, and the public of the environmental aspects of multilateral bank lending, the banks for the most part have not taken meaningful measures to improve their environmental performance.

BRAZIL NORTHWEST DEVELOPMENT PROGRAM

In the rest of my testimony, I will just mention the involvement of the World Bank and the Inter-American Development Bank in two huge Amazon forest development projects in northwest Brazil over the past year. These projects give as good an example as any of the banks' continued lack of attention to sound environmental management.

The World Bank has approved six loans since 1981, totaling $443.4 million to finance the Brazil Northwest Development Program, known by its Portuguese name of Polonoroeste. This program will go down in history as one of the greatest fiascos in Third World development.

I describe the project in my statement. It is basically a huge road paving, construction, and agricultural settlement project in an area of pristine Amazon forest three-quarters of the size of France, inhabited by about 6,700 Indians belonging to at least 34 known tribal groups. Yet, what is now occurring in this region is an ecological, human, and economic disaster of tremendous dimensions. Almost none of the environmental and Indian protection components which the bank did include in this project have been implemented, and the rate of deforestation in the region is the highest in the Brazilian Amazon, and increasing explosively.

If present trends continue, the entire Brazilian State of Rondonia, an area the size of Great Britain, will be deforested by 1990.

In spite of these disastrous problems in the World Bank's project, the Inter-American Development Bank approved on January 23 a $58.5 million loan to Brazil to finance the paving of a 300-mile extension of a penetration road from the World Bank Program area into another area adjacent to the Amazon Forest the size of Virginia.

This Inter-American Bank project will threaten the land of more than 8,000 Indians, and threaten still more deforestation. It was for that reason that the U.S. Director of the Inter-American Bank abstained on January 23 from voting in favor of the loan, because of the adverse economic consequences that would result from the terrible environmental impact of the proposed Inter-American Bank project.

That, Mr. Chairman, was the first time in the 26-year history of the Inter-American Development Bank that the United States has ever not voted in favor of a Brazil loan.

Senator KASTEN. As you know, we had a little bit to do with that.

Mr. RICH. Yes; we thank you for all of that because that is playing a tremendously positive role in pushing the banks to improve their environmental record.

It is just astonishing that the World Bank and the Inter-American Bank continue to invest huge sums in these tropical forest settlements and road projects in light of a very extensive academic and scholarly literature on the failure of previous such projects. I have a few cites from that in my prepared statement.

POLONOROESTE SITUATION

Most discouraging of all, as you know, Mr. Chairman, has been the World Bank's apparent indifference to international public opinion with respect to the Polonoroeste situation. Last October 12, representatives of 31 ecological and indigenous people human rights groups in the United States, Brazil, and other countries, signed a lengthy letter to World President A.W. Clausen, citing the problems in Polonoroeste, and suggesting a number of measures that the World Bank could take immediately to mitigate the problems in this project area. The one-paragraph letter that we received as an answer was evasive and totally lacking in substance. The World Bank even refused to schedule an oral briefing on the situation.

I have attached both our letter and the Bank's response to my testimony, for the record, with your permission, Mr. Chairman.

I don't want to give the impression, before concluding, that the picture is entirely negative. The banks have made some efforts over the past year, some timid efforts, to begin to address these environmental planning concerns. They are mentioned on pages 19 and 20 of my prepared statement. But these rather timid measures completely pale beside the adverse impact, the waste, and destruction that is occurring with both ongoing projects and with projects such as the Inter-American Bank project that I have just described, that the banks are continuing to approve.

Obviously, what is needed is change, and we believe that the single most important key to change is that the biggest donor of funds to the multilateral banks, the United States, send a message to the management of the banks that it views the environmental quality of multilateral bank projects as a matter of the utmost priority and concern.

This is a matter of real urgency since projects such as Polonoroeste represent a nearly scandalous squandering of scarce financial resources through ecological mismanagement. This subcommittee is uniquely positioned to send this message by conditioning its appropriations for fiscal year 1986 to the World Bank and the Inter-American Development Bank on the U.S. Executive Directors of these institutions demonstrating that the banks are reorienting their existing priorities and resource commitments, such as staffing, to address the urgent lack of ecological planning in many of their projects.

The kinds of actions which in substance the Treasury Department has already agreed the banks should take out are set out in a committee print of the House Committee on Banking, Finance and Urban Affairs, entitled, "Multilateral Banks Activity and the Environment," both with the recommendations that I referred to before.

SUPPLEMENTAL REQUEST

The six organizations I represent today also urge the subcommittee to approve, subject to the conditions I referred to above, for the fiscal year 1985 supplemental request of the administration for multilateral bank appropriation, as well as the full amount for the fiscal year 1986 request. We think that reducing the appropriations below the annual amounts necessary to fill the current replenishments and capital subscriptions of the banks not only jeopardizes their lending programs, but will make this desperately needed environmental reform much more difficult.

To conclude, despite the disturbing lack of priority that the multilateral banks are giving to ecological considerations, they have a pivotal and crucial role to play in ensuring the environmentally sustainable economic development of a large and increasingly important part of the world. By conditioning appropriations, this committee would give them a much needed spur to control this role which they have always promised they would play.

Thank you.

[The prepared statement of Mr. Rich follows:]

PREPARED STATEMENT OF BRUCE M. RICH

ON BEHALF OF

NATURAL RESOURCES DEFENSE COUNCIL, INC.
NATIONAL WILDLIFE FEDERATION
NATIONAL AUDUBON SOCIETY
ENVIRONMENTAL DEFENSE FUND
FRIENDS OF THE EARTH
IZAAK WALTON LEAGUE OF AMERICA

I. Introduction

Mr. Chairman, I appreciate very much the opportunity to appear before this Subcommittee concerning appropriations for the Multilateral Development Banks (MDBs) in Fiscal Year 1986. I am Bruce M. Rich, an attorney with the International Program of the Natural Resources Defense Council, Inc. (NRDC). I am testifying today on behalf of six national environmental organizations: NRDC, the National Wildlife Federation, the National Audubon Society, the Environmental Defense Fund, Friends of the Earth, U.S. and the Izaak Walton League of America. Together, these organizations have over five million members and supporters nationwide. NRDC has over 45,000 members and the National Wildlife Federation 4.5 million members. The National Audubon Society has a membership of one half million, the Environmental Defense Fund 47,000, Friends of the Earth, U.S. 35,000 and the Izaak Walton League of America, 45,000.

The six national environmental organizations I represent today wish to express their thanks for the concern and interest the Chairman and the Subcommittee have shown over the last year in promoting improved attention by the Multilateral Development Banks to environmental aspects of MDB activities. In particular, we commend the Chairman and the Subcommittee for the report language adopted last year to accompany the 1985 Foreign Assistance Appropriations Bill expressing concern about environmental aspects of World Bank projects and requesting a report from the Treasury Department by March 1, 1985 on the results of its pressing the issue of environment by encouraging the employment of more environmental professionals by the World Bank. We also thank the Chairman and the Subcommittee for the vigor with which they have pursued inquiries to the World Bank from concerned organizations in the U.S., Brazil and eight other countries concerning threats to the environment and indigenous peoples resulting from ecological mismanagement in a $443.4 million World Bank development program in the northwest Brazilian Amazon forest.

My statement will review what progress the multilateral banks have made in improving their environmental performance since U.S. Congressional attention first focussed on the issue nearly two years ago. This record is for the most part deeply disquieting and disturbing. I will focus in particular on a series of loans totalling more than a half billion dollars that the World Bank and Inter-American Development Bank have made to Brazil for road construction and agricultural settlement in the Amazon forest that are resulting in a gigantic ecological and economic debacle. The IDB loan was the subject last January 23rd of an abstention by the U.S. Director of the IDB--the first time a U.S. MDB Director has ever abstained from approving a project on environmental grounds.

The banks´ continued neglect of ecological concerns in their activities should be a matter, in our opinion, of the utmost concern to this Subcommittee since it is resulting in poor projects, poor loans, and tragic squandering of precious investment resources for the developing world as well as in waste of U.S. taxpayers´ money. There have been in the last year, however, some indications that the banks are finally beginning to appreciate the urgency of the need to truly implement the commitments to sound environmental planning that they all have made. But if we do not see real changes in organization, staffing and project planning in the next twelve months I am afraid that this may be the last year that all the organizations I represent can commit themselves to support appropriations for all of the MDBs.

I will conclude by urging the Subcommittee to approve the full amount of the Administration multilateral bank appropriations request for FY 1986 as well as the FY 1985 supplemental appropriations request. Approving the Administration's requests is essential for the U.S. to fulfill the pledges it has made to replenish the paid in capital and concessional lending resources of the MDBs in a timely fashion, which is not now occurring in a number of cases. We recommend that the appropriations legislation be accompanied by language that states in the strongest terms possible the expectation of the Appropriations Committee that the MDBs devote greater proportions of their resources and staffing to ecological concerns in their activities. Appropriations for the World Bank and IDB for FY 1986 should be conditioned on the ability of the U.S. Executive Directors of these institutions to demonstrate that these two MDBs are changing their priorities by making increased commitments of staff and other resources to environmental matters. The precise environmental commitments for which the Appropriations Subcommittee on Foreign Operations could expect the Directors to show evidence of progress were endorsed in substance by the Treasury Department last September in its review of a series of Recommendations on Multilateral Bank Activity and the Environment prepared by the House Banking Subcommittee on International Development Institutions and Finance. In the critical matter of staffing, these Recommendations urge the creation of environmental review positions in each of the six regional offices of the World Bank and the establishment of a central environmental review office in the IDB.

II. Congressional and Administration Concern With Ecological Aspects of MDB Activities Over the Past Two Years

The environmental aspects of MDB activities have been the subject of six special oversight hearings in the House of Representatives since June, 1983 and have been discussed in at least six other hearings in the Senate and House since mid-1983. Five of the House oversight hearings were held by the House Subcommittee on International Development Institutions and Finance, which prepared in late 1984 a series of nineteen policy recommendations on the MDBs and the environment, many of which are to be promoted through the U.S. MDB Executive Directors. In hearings before the House Banking Subcommitee on International Development Institutions and Finance last September, a representative of the Treasury Department declared that recommendations were in substance acceptable to the Treasury Department and can be the basis "for an ongoing U.S. policy approach to this [environmental] aspect of the MDB programs." The Treasury Department representative noted that these "extremely important [environmental] issues affect development not only in the near term implementation of specific [MDB] projects but...have significant implication[s] for generations to come."

The recommendations include assigning environmental review staff to the Treasury's Office of Multilateral Development Banks, and promoting increases in environmental staffing in the four multilateral banks as well as MDB financed environmental training programs for Third World countries. Most importantly, the recommendations go on to direct the U.S. MDB Directors to assume a role of environmental leadership by promoting changes in MDB operations to include non-governmental conservation and indigenous peoples' groups in the Third World in the planning and implementation of projects, and to regularly include environmental and public health ministeries in the high level policy discussions which take place on a regular basis between the banks--especially the World Bank--and Third World nations. The U.S. Directors are also not to approve certain categories of environmentally destructive projects.

Because of the concern of the Subcommittee on Foreign Operations, the Senate Appropriations Committee itself adopted vigorous environmental report language last year to accompany the 1985 Foreign Assistance Appropriations legislation. Besides concurring with the environmental concerns that we expressed last year before this Subcommittee, the report went on to direct the Treasury Department to "press the matter of the environment" with the World Bank, particularly with respect to increased environmental staffing, and report back to the Committee on what progress has been made by March 1, 1985.

On January 23, 1985 a U.S. MDB Executive Director abstained from voting in favor of a proposed MDB loan for the first time on what were essentially environmental grounds. The loan in question was for a proposed $73 million dollar IDB road paving project in the northwest Brazilian Amazon forest, and $14.5 million of this total was in effect vetoed by the U.S. abstention since it was to come from the IDB's Fund for Special Operations. Approval of loans from the Fund for Special Operations requires a two thirds vote of the IDB Board, where the U.S. has approximately 35% of the voting power.

Most recently, Mr. Chairman, under your leadership this Subcommmittee has taken an active interest in the progress of a huge World Bank development program in Northwest Brazil, where problems of project implementation are resulting in a disasterous situation of accelerated deforestation and destruction of Indian lands in an area of Amazon forest three quarters the size of France. A lengthly letter from 31 environmental and indigenous peoples' protection groups from all over the world was sent to World Bank President Clausen last October 12th expressing concern over the situation in Northwest Brazil and requesting that the

Bank take a number of specific measures that could immediately alleviate the worst aspects of the situation in the bank project area. The World Bank's response to the legitimate concerns of these groups was, as you stated in a letter to President Clausen, Mr. Chairman, "frankly insulting." The Subcommittee vigorously pursued this matter by requesting a fuller response from the World Bank and access to Bank documents concerning the project. The Treasury Department has also expressed its concern to the World Bank about this project on several occasions and has noted that there are grave risks that the World Bank's huge investment will result "in little lasting economic development."

III. Little Evidence of Environmental Progress by the Multilateral Development Banks

In spite of scrutiny by the Congress, the public and the Administration of the environmental aspects of MDB lending, the banks for the most part have not taken meaningful measures to improve their environmental performance. The Inter-American Development Bank, in fact, recently approved a project that was so bad from the environmental perspective that for the first time in the 26 year history of the bank the U.S. withheld its approval for a loan to Brazil--on environmental grounds. The controversy over one series of World Bank loans for road building and agricultural settlement in Northwest Brazil has taken proportions of an international scandal, yet the bank has rebuffed efforts of concerned academics, environmentalists, scientists and anthropologists in the U.S., Brazil and elsewhere to call attention to measures it might take to salvage its disasterous involvement in a program it never should have financed. Clearly, changes in operations procedures and increased environmental staffing are needed if the MDBs are to avoid such ecologically caused development debacles in the future--but so far there is little indication of change.

The six oversight hearings held in the House in 1983 and

1984 created an extensive public record on the adverse environmental impacts of certain categories of projects that the MDBs continue to finance. Today I wish to discuss for the record in more detail, however, the involvement of the World Bank and IDB in the Amazon forest development projects that I have referred to. These projects provide as good an example as any of the lack of sound environmental management in the activities of the banks over the last year.

The World Bank's approval of six loans since 1981 totalling 443.4 million to finance the Brazil Northwest Development Program (Polonoroeste) will go down in history as one of the greatest fiascos in the history of Third World development. The total cost of this mammoth Amazon colonization, settlement consolidation and road construction scheme approaches $1.6 billion. Polonoroeste exemplifies all of the uncertainties and failures of previous tropical forest colonization schemes in the Amazon. Given the history of failure and risk in such schemes--linked with the complex and fragile ecology of tropical forest ecosystems--it is astounding that the Bank could not find better ways to lend nearly a half billion dollars.

The Bank's Polonoroeste investment is essentially a highway project. It involves the paving of a 1500 kilometer road through the heart of the Amazon forest in Northwest Brazil, construction of feeder and access roads, and construction of 39 rural settlement centers to consolidate and attract tens of thousands of settlers in a largely pristine tropical forest region three quarters the size of France. The Polonoroeste Program area encompasses the entire Brazilian state of Rondonia and northwestern Mato Grosso. Over 6500 Amerindians belonging to about 34 tribal groups are thought to live in the area. The exact number of Indians is unknown, since some parts of the Polonoroeste region are still so untouched that there are at least two and possibly more tribes who have had no contact with the outside world.

To its credit, and partly in response to international controversy and pressure, the World Bank conditioned its participation in the program on adequate demarcation and protection of over 15 Indian Reserves, and implementation of health measures to protect the Indians. The Bank also provided funds for setting aside two Biological Reserves, a National Park, four Ecological Stations (which would also be protected natural areas), and national forest areas. In addition, one of the loan agreements between the Bank and the Brazilian government contained specific provisions in which the Brazilian government pledged that Polonoroeste settlements would not occur on unsuitable soils or soils of unknown quality, or menace the numerous areas to be protected.

The Bank justified its role as primarily consolidating and stabilizing existing settlements in an area already being actively colonized, as well as ensuring protection of the environment and of the thousands of indigenous people inhabiting the region. However, 54% of the World Bank's total investment of $443.4 million went for paving the 1500 kilometer highway leading to the region, which, given the promotion of colonization by the Brazilian government, many predicted would lead to the accelerated migration and deforestation that is now occurring.

What is now occuring in the Polonoroeste region is an ecological, human and economic disaster of tremendous dimensions. Almost none of the environmental and Amerindian components have been implemented, and the rate of deforestation in the Polonoroeste Program area is the highest in the Brazilian Amazon, and increasing explosively. If present trends continue, the entire Brazilian state of Rondonia, an area the size of Great Britain, will be deforested by 1990. The public health situation is a tragedy. The incidence of malaria is close to 100% in some areas. Some Indian tribes are menaced with physical extermination from measles and influenza epidemics, and infant mortality rates of 50 and 25 percent have been reported in two recently contacted tribes.

Rather than being ´consolidated,´ as was the intention of the Bank, settlers are abandoning their cleared land since it cannot support annual agriculture; in many instances they are selling it to larger landowners for cattle ranching, a use which numerous past experiences in the Amazon have shown will also be unsustainable. Intended protected natural areas and Indian reserves have been invaded by spontaneous settlement, now out of control, and in one such area, the Lourdes Indian Reserve, the threatened tribe recently took a dozen settlers hostage in a desperate attempt to force the government to protect its lands.

A recent article in the journal Foreign Affairs described the scenes of massive ecological devastation in the Polonoroeste program and other such projects in the following words:

> Visiting such areas it is hard to view without emotion the miles of devastated trees, of felled, broken and burned trunks, of branches, mud, and bark crisscrossed with tractor trails--especially when one realizes that in most cases nothing of comparable value will grow again on the area. Such sights are reminiscent of photographs of Hiroshima, and Brazil and Indonesia might be regarded as waging the equivalent of thermonuclear war upon their territories.

In spite of the disasterous problems in the World Bank´s Polonoroeste Program, the Inter-American Development Bank approved on January 23rd a $58.5 million loan to Brazil to finance the paving of a three hundred mile extension of a penetration road from the Polonoroeste Program area into a pristine area of adjacent Amazon forest the size of Virginia. This road project, which will connect Porto Velho in the state of Rondonia in Northwest Brazil with the town of Rio Branco in Acre state, threatens the lands of more than 8000 Indians, none of whose territories have been demarcated or protected. It gravely risks accelerating still further deforestation in Northwest Brazil, which already has the most rapid rate of deforestation in the Amazon Basin. Its main impact will be to transfer the already unsustainable influx of landless settlers 300 miles farther west into another remaining pristine forest area--without any rational hope for the vast majority of the migrants to create an economically and ecologically sustainable agriculture.

Although the Inter-American Bank briefed representatives of our groups on the measures the Bank plans to promote to mitigate the negative impacts of this project, we think they are gravely inadequate. If the U.S. had approved the project in its present form, it would be supporting a loan that will have in all probability tragic consequences for the ecological stability of the region affected by the road and for thousands of Indians.

In its conception the project is even worse than the World Bank´s Polonoroeste Program, since the entire loan amount is for paving the highway, with virtually no financial support for rational regional development, protection of lands unsuitable for agriculture and protection of Indian lands. The current project puts the entire financial and technical burdern for preparing a full environmental management and protection plan on the Brazilians. This plan does not have to be completed until road improvement activities will have been underway nearly two years. We think that common sense and the most basic concern for the sound management of the region´s largely unstudied and unknown environment as well as for the survival of thousands of Indians would dictate delaying disbursements for road construction until full environmental and Amerindian protection plans have been prepared. U.S.A.I.D. has written such "conditions precedent" into environmentally sensitive projects it has funded in the Peruvian Amazon.

The U.S. Executive Director of the Inter-American Development Bank abstained on January 23rd from voting in favor of the loan because "the negative economic consequences associated with the environmental dimensions of [the] project were just too adverse to justify the loan proposal." A press release of the Treasury Department cited among other things "the unsustainable nature of the agricultural development likely to take place on the poor soils in the region and the heavy deforestation expected with road construction." This was an extraordinary precident, since not only was it the first time that a U.S. Director of an international financial institution had raised environmental concerns in a vote on a prospective loan, it was also the first time in the 26 year history of the Inter-American Development Bank that the U.S. had not voted in favor of a loan to Brazil. The U.S abstention resulted in an effective veto of $14.5 million of the proposed loan, since that amount was to come from the Bank´s Fund for Special Operations, which requires a two thirds vote of the Board (the U.S. has 34.5% of the voting power on the Board).

It is astonishing that the World Bank and IDB continue to invest huge sums in tropical forest settlement and road projects in light of an extensive literature on the failure of previous such projects. Surely, there are better and surer investment and development alternatives.

A decade ago, a study of 24 colonization projects in Latin America noted that

> few spheres of economic development have a history of, or a reputation for, failure to match that of government-sponsered colonization in humid tropical zones [in Latin America]. Horror stories abound about expensive ventures that resulted in colonies where few if any settlers remained after several years. The evidence is irrefutable, and failure can be attributed only to the institutions responsible for selecting the area and the colonists, planning and executing the development program, and subsequently maintaining or abandoning the infrastructure and services in the region.

A survey conducted by U.S.A.I.D. in 1980 of six settlement projects in the Peruvian Amazon revealed settler desertion and abandonment rates ranging from 26% to 92%; three of the six projects had been virtually abandoned by their intended ´beneficiaries.´ The largest agricultúral colonization scheme in the tropics of the last two decades was the ill fated

Trans-Amazon highway project, which involved the construction of a 5000 kilometer east-west road across the Brazilian Amazon basin and the attempted resettlement of 560,000 families or at least two million people. Although the highway was begun in 1970, large sections of it have been abandoned and attempts at promoting sustainable agricultural production in the areas opened up by the road are an almost total failure. The total cost of the Trans-Amazon highway and its associated resettlement projects was, according to one estimate, over $2 billion in 1984 dollars.

The major ecological factor in the abysmal performance of such jungle settlement schemes is the preponderently poor quality of soils in tropical moist forests. Perhaps as much as 90% of tropical moist forest soils are completely unsuited for any kind of annual agriculture. The only people that have evolved sustainable agro-ecosystems in these areas are the indigenous and tribal peoples that inhabit many of the still intact rainforests. Regrettably, the MDBs are doing little to investigate, preserve and utilize this knowledge and much, through ill conceived agricultural projects, to accelerate its destruction and loss for all time. In the words of one anthropologist,

> with the extinction of each indigenous group, the world loses millenia of accumulated knowledge about life in, and adoption to tropical ecosystems. This priceless information is forfeited with hardly a blink of the eye: the march of develoment cannot wait long enough to find out what it is destroying.

Most discouraging of all has been the World Bank's apparent indiference to international public opinion with respect to the Polonoroeste situation. It is to the credit of the Inter-American Development Bank that it did arrange for a high level briefing on its recent Brazil road project for representatives of environmental and anthropological groups, the first time such a meeting has ever taken place within the IDB. Although the briefing did not result in substantive changes in the project, it was at least a sign that the IDB´s management is beginning to take these issues more seriously than in the past.

The World Bank, on the other hand, seems to have actually regressed in its responsiveness to outside concern. As I mentioned earlier, last October 12 representatives of 31 ecological and indigenous peoples´ human rights groups in the U.S., Brazil and other countries, as well as legislators from Brazil and West Germany, signed a lengthly letter to World Bank President A.W. Clausen citing the problems in Polonoroeste and suggesting a number of measures the World Bank could undertake immediately to address the dreadful situation that is occurring. The letter was accompanied by some 55 pages of detailed documentation. The one paragraph letter that we received as an answer was evasive and totally lacking in substance; the Bank also refused even to schedule an oral briefing on the situation.

That is frankly outrageous, given that the signatories of the letter represent millions of individuals belonging to citizens´ groups in the United States, the Bank´s largest donor, and in Brazil, the country which the project was affecting, as well as concerned organizations in eight other countries. Other signatories of the letter represent an internationally respected scholarly expertise that the Bank apparently does not seem to think warrents a substantive answer: the Presidents of the Brazilian and American Anthropological Associations and the former Chairman of the Harvard University Anthropology Department. Yet, the signatories of the letter are and continue to be supporters of the general goals of multilateral development bank programs--and of the institutions themselves. But they are deeply disturbed by projects such as Polonoroeste which undermine, rather than promote sustainable development.

Although we can only assume and hope that World Bank staff are trying as best they can to take measures to mitigate problems in the Polonoroeste region, the Bank´s official lack of responsiveness to outside concern and information makes the task of the six national environmental organizations I represent today unnecessarily difficult and awkward in supporting U.S. appropriations to its programs. Moreover, the Bank's lack of response makes it impossible for us to say anything about how or whether it plans to avoid such destructive and wasteful tropical forest settlement schemes in the future, though that would be one positive result of Polonoroeste that I would have hoped to have been able to state for the record on the Bank's behalf. I am submitting for the record both the text of our October 12, 1983 letter and the World Bank's response, as well as articles from the New York Times and the Defenders of Wildlife that discuss the controversy surrounding Polonoroeste.

In our opinion, then, these projects of the World Bank and IDB in Northwest Brazil are extremely grave examples of more widespread, unremedied problems in the environmental planning and implementation capacity of the banks, as well as disturbing examples of lack of the most basic accountability to international public, scientific and scholarly opinion.

IV. Conclusion

I do not want to leave the Subcommittee with the impression that the environmental situation at the MDBs is totally bleak or hopeless, however. I have dwelt at some length on these recent projects of the World Bank and IDB in Brazil, since besides constituting a misuse of scare investment resources they are having tragic repercussions on the biological diversity and indigenous peoples of the earth's largest remaining tropical rainforest. Nevertheless, there have been a few glimmerings of progress this past year.

As I mentioned, members of the senior management of the IDB did indicate their heightened concern for improving the bank's environmental record at a meeting with representatives of environmental and anthropological groups earlier this year. I understand that the IDB is planning to undertake a study of how its environmental planning could be improved; such a study is certainly desperately needed. The World Bank created a sixth position in its Office of Environmental and Scientific Affairs, but the real need is to create positions of environmental responsibility in the six regional offices of the bank where projects are regularly identified and prepared. Last May, the World Bank issued a new set of environmental policies and procedures, and for the first time incorporated them in its Operations Manual, which gives them, at least in theory, a mandatory character. The bank also will soon release new pesticide guidelines which will promote integrated pest management in bank projects. We see no way, however, in which these policies can be effectively implemented if the current levels of staffing for environmental review in the World Bank are not increased. The Asian Development Bank is adding a third staff member to its Environmental Unit, and the African Development Bank has created a position for an Environmental Coordinator.

But what we are all interested in are not policies, procedures or additional staff positions _per se_; these are means to an end. The bottom line, quite simply, is that MDB financed projects do not destroy the natural resource base and undermine through adverse environmental impacts their own goal of sustainable economic development The whole thrust of the concern of the environmental organizations I represent is that although the MDBs have espoused for years on a general level the importance of ecological planning and sustainable management of natural resources, too many of their projects flagrantly contradict these principles. By this criterion--the only one which really matters--and despite a flurry of Congressional hearings and recommendations--very little has changed.

The single most important key to change is that the biggest donor of funds to the MDBs, the United States, send a message to the management of the banks that it views the environmental quality of MDB projects as a matter of the utmost priority and concern. This is matter of real urgency, since projects such as Polonoroeste represent a nearly scandalous squandering of scarce financial resources through ecological mismanagement. Both developing countries such as Brazil, and industrialized nations such as the U.S. cannot afford much longer many more projects that so tragically misuse financial and natural resources. This Subcommittee is uniquely positioned to send this message by conditioning its appropriations for FY 1986 to the World Bank and IDB on the U.S. Executive Directors of those institutions being able to demonstrate that the banks are reorienting their existing priorities and resource commitments--such as staffing--to address the urgent lack of adequate ecological planning in many of their projects. The kinds of actions which in substance the Treasury Department has already agreed the banks should take are set out, for example, in Committee Print 98-20 of the House Committee on Banking, Finance and Urban Affairs concerning "Multilateral Bank Activity and the Environment."

I wish to emphasize that the changes we urge the Subcommittee to promote in the MDBs concerning environmental management in no way involve an increase in absolute numbers of staff, budget or resources. On the contrary, we think that any general increase in staffing, financial resources etc. made to the MDBs that would only result in a corresponding proportional increase in environmental areas would not be progress at all, since the general priority currently given to ecological matters (i.e., very little) would remain the same. What is needed is a change in the management priorities of the banks so that environmental aspects of staffing, operational procedures, policy and project formulation, in short of all bank activities, receive a proportionally greater institutional commitment within the existing replenishments and capital increases to which the U.S. has already committed itself. To take the case of staffing, we are not suggesting increasing the general levels of MDB professional staff. We are suggesting that as positions open up in the World Bank, for example, through retirement, resignations etc. the Bank make recruitment of environmental officers for its six regions a top priority, rather than adding another economist or public relations specialist to its professional staff of more than 2700.

The six national environmental organizations I represent today urge the Subcommittee to approve--subject to the conditions I referred to above--both the FY 1985 Supplemental Request of the Adminstration for MDB appropriations as well as the full amount of the FY 1986 Request. The position of the organizations I represent is that the MDBs must make better use of their existing resources through increased attention to ecological concerns, not that they receive increased appropriations. But reducing appropriations below the annual amounts necessary to fill their current replenishments and capital subscriptions not only jeopardizes their lending programs but also makes needed environmental reform more difficult. The situation with the IDB is particularly serious, since the IDB charter requires that the U.S. share of the bank's capital never fall beneath 34.5%. This means that every dollar not appropriated to meet the annual subscription levels approved by Congress in 1983 for the IDB Sixth General Increase in Resources results in an obligatory shortfall of two additional dollars in capital contributions by other countries.

In spite of the disturbing lack of priority that the MDBs are giving to ecological considerations--which in some cases means that some projects, such as Polonroeste, may actually be doing more harm than good--in spite of these shortcomings, the MDBs have a pivotal and crucial role to play in ensuring the sustainable economic development of a large and increasingly important part of the world. Most of the ecological devastation that is occurring in the developing world--deforestation in the Amazon and Himalayas, soil erosion and desertification in Africa etc.--would continue if the MDBs were abolished. The key question is whether some MDB activities will continue to contribute to this frightening environmental deterioration or whether the MDBs will promote projects and policies that conserve, rather than undermine the ecological underpinnings of economic development. In a few projects and project components they have already demonstrated that they can do this. There are many more projects where this is not the case. But cutbacks on appropriations for MDB replenishments and capital increases to which the Administration is already committed will undermine the ability of the MDBs to assume the positive environmental role they have pledged themselves to realize. Conditioning appropriations would give them a needed spur.

This concludes my prepared statement. Thank you very much.

THE NEW YORK TIMES, WEDNESDAY, OCTOBER 17, 1984

World Bank Urged to Halt Aid to Brazil for Amazon Development

By ERIK ECKHOLM

Critics asserted yesterday that Brazil's program to settle the Amazon frontier was harming the forests and jeopardizing Indian tribes, and they called on the International Bank for Reconstruction and Development to reassess its financial support of the project.

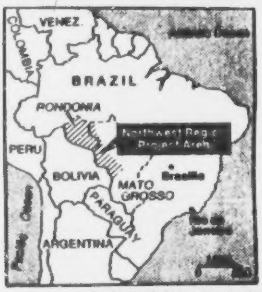
More than 25 environmental and anthropological groups from the United States, Brazil and other countries issued the complaint in a letter to A. W. Clausen, president of the World Bank. The critics said Brazil's poor planning was causing "accelerated, rampant deforestation, invasion of Indian lands, and destruction of natural areas unsuited for agriculture but possessing tremendous biological significance."

A spokesman for the World Bank, Peter Riddleberger, said, "This is a thoughtful letter and it will receive a thoughtful response." But he declined to offer immediate comment on specifics.

Bank Financing Major Road

The World Bank has committed $443 million in loans to Brazil for paving a 1,000-mile road into the region, building feeder roads, providing services to settlers and establishing biological reserves.

Landless families are streaming into the project area, which includes the entire state of Rondonia and part of Mato Grosso. Most of the migrants come from southern Brazil, where mechanization is displacing farm laborers.



The New York Times/Oct. 17, 1984

Brazil's Amazon frontier project involves area larger than Britain.

Stories from the frontier are reminiscent of the Old West in the United States, with land disputes often settled through gunfights, farmers futilely clearing fragile soil, speculators taking over farms and settlers invading areas set aside for Indian tribes, some of which are only now making their first contacts with people of European descent.

Scientists say the unchecked clearing of the Amazonian forest in the area will exterminate several plant and animal species and could alter the regional climate.

Bank Demanded Safeguards

The World Bank wrote stringent conditions for protection of the environment and of tribal groups into the loan agreements in 1981. The Brazilians agreed to set aside several nature reserves, to limit farming to soils that could sustain it and to demarcate and protect Indian lands.

Critics now say the building of roads has speeded migration to the region but little has been done to put the safeguards into effect.

Arguing that the "credibility and image" of the World Bank was at stake, the letter from private organizations asserted: "To insure that bank loan conditions are respected in the future, the bank must exercise its maximum leverage in this situation."

Congressman Writes Letter

The letter was written by the Natural Resources Defense Council and signed by many other environmental groups, including the National Wildlife Federation and the National Audubon Society, and by the presidents of national anthropological associations in the United States and Brazil.

In a related action, Representative James H. Scheuer, Democrat of the Bronx and Queens, who is chairman of a Congressional subcommittee concerned with natural resources, sent a letter Monday to Treasury Secretary Donald T. Regan, whose department handles Federal relations with the World Bank. Mr. Scheuer said the bank should encourage the Government of Brazil "to limit and control development in this environmentally sensitive area."

The United States holds about 20 percent of the shares of the bank, the world's largest development lending agency.

At hearings before Mr. Scheuer's Congressional subcommittee in September, José Lutzenberger, a Brazilian agronomist, said many settlers were being given plots unsuited to farming, forcing them to sell out after a few years to speculators and ranchers who were consolidating large holdings and violating forest protection laws.

Road to Pristine Forest

He and other witnesses expressed particular concern about a new road being constructed into the Guaporé Valley, the last untouched forest in Rondonia. He said the road "blatantly flouts two conditions in the World Bank's loan agreement."

The valley's soils are generally poor, he said, and the remote area is inhabited by still-unidentified Indians who killed colonists and rubber tappers in encounters in 1981 and 1983.

The critics also urged the World Bank to strengthen its ability to reject loans that could cause harm to the environment. The bank has issued formal guidelines for environmental planning, but, according to Bruce M. Rich of the Natural Resources Defense Council and other critics, it has not yet committed the resources and staff needed to guarantee they would be put into effect.

Natural Resources Defense Council, Inc.
1350 NEW YORK AVENUE, N.W.
SUITE 300
WASHINGTON, D.C. 20005
202 783-7800

October 12, 1984

Mr. A. W. Clausen
President
The World Bank
1818 H Street, N.W.
Washington, D.C. 20433

Dear Mr. Clausen:

We are writing to express our grave concern over disturbing evidence of the consequences of the continued neglect of sound management of natural resources and protection of indigenous peoples in the design and implementation of World Bank projects.

Several independent sources in Brazil have called our attention to the accelerating and uncontrolled ecological and human destruction occurring in the World Bank financed Brazil Northwest Development Program (Polonoroeste). There is considerable evidence that the Brazilian agencies responsible for the program lack either the will or the institutional means to provide minimum protection to ensure the physical survival of the ecology of the Northwest region and over 6,700 Amerindians belonging to at least 34 tribal groups. Although Bank support for the Program was strictly predicated in the first Loan Agreement (No. 2060 BR) on the prompt implementation of measures to protect the environment and Amerindian population of the Program area, there are strong indications that the Bank has lost control over - or will not take effective measures to control - the destruction being unleashed in the region. Information we have received strongly indicates that the Bank's $443.4 million investment has so far contributed to uncontrolled migration, accelerated deforestation, conversion of land to unsustainable cattle ranching, land speculation, and increased encroachment on Indian land areas. The Northwest Region's thousands of Amerindian inhabitats and irreplaceable biological diversity are threatened as never before.

In spite of this evidence -- and in disregard of the terms of the Loan Agreement for Phase I of the Program -- the Bank actually accelerated lending late last year for the third phase of Polonoroeste, which will settle 15,000 more families in the region. Although the purpose of this accelerated loan disbursement (part of the Bank's Special Action Program) was to help Brazil maintain development momentum in the face of the lingering world recession, it violated basic principles of sound management by accelerating funding for a program which was already encountering grave difficulties in managing the resources at hand.

The Bank's $443,400,000 loan commitments to the three phases of the Program account for nearly one-half of one percent of Brazil's enormous foreign debt. It will be a tragedy for Brazil if this huge investment leads to the destruction of the natural resource base of Rondonia and western Mato Grosso -- and of the thousands of indigenous people and non-Indian settlers dependent on these resources -- rather than to development that is sustainable in the long term.

We urge and request the Bank to undertake effective measures to regain control over its enormous investment. In particular, we wish to know what immediate actions the Bank plans to undertake to:

1. Secure, through immediate discussions with the federal government of Brazil and the state of Rondonia, a halt to ongoing plans to settle 8,000-10,000 settlers in the Guapore Valley along the soon to be completed BR-429 (Presidente Medici-Costa Marques) highway. These planned settlements are on soils largely unsuitable for sustained cultivation by small farmers and threaten invasions of the Guapore Biological Reserve, the Pacaas Novos National Park, the Rio Branco Indian Reserve, and the still undemarcated lands of the Uru-Eu-Wau-Wau Indians. Such plans appear to be in clear violation of Section 3.13 of the Bank's Agreement with Brazil and the state of Rondonia for loan 2060 BR.

2. Provide for the immediate demarcation and protection of the extensive Indian lands in the Program area, as well as for the provision of health and other services. This is an aspect of Polonoroeste which the Bank and the Brazilian government agreed in Section 4.05 of Loan Agreement BR-2060 would be implemented by the Brazilian Indian Agency, FUNAI, but which is largely unimplemented. Numerous Indian areas are being occupied by squatters. In at least one reported case - the Lourdes Reserve - armed confrontations have occurred between Indians and settlers.

3. Promote concrete measures to deal with accelerating, indiscriminate deforestation, land speculation, and conversion to cattle pasture in areas where the Bank is financing new colonization or attempting to consolidate existing settlements; to this end, the Bank should immediately begin to improve the support and extension services available to the settlers.

4. Ensure adequate protection and management of the two Biological Reserves, the National Park, the four Ecological Stations, and the National Forests which were to be set up with Bank funding in the Polonoroeste Program Area; the National Forests have not been established or demarcated, and the other protected areas are either occupied by squatters or lack management plans and the means to implement them.

5. Ensure that the state of Rondonia redesign or cancel three planned roads - state highways 370, 377, 383 - which will crisscross the Guapore Biological Reserve and the Rio Branco Indian Reserve. These roads will link the reserves with two major federal highways and existing and planned settlements and remove all remaining hope of conserving these protected areas.

6. To implement measures 1-5 above, consider the renegotiation of the Polonoroeste loan agreements and the funding of special projects to strengthen FUNAI, the

Brazilian Indian Agency, IBDF, the Brazilian Forestry Development Institute, and the government agencies charged with providing services to the settlers.

7. Insist that the Brazilian government land agency (INCRA) and the State of Rondonia halt nationwide advertising promoting further migration to the Polonoroeste region.

8. Increase the Bank's professional environmental staff and systematically implement more rigorous procedures to ensure improved environmental design so that the Bank does not repeat the costly mistakes in resource management that are occurring in Polonoroeste; a key element in improved design should be the early inclusion and participation in project planning of representatives of the local groups that are affected: indigenous peoples, farmers and settlers, environmental conservation organizations, and members of the church working in rural areas.

The prompt implementation of these measures would help to forestall increasing concern in the U.S. Congress and the West German Bundestag over evidence of the Bank's inadequate attention to sustainable management of natural resources and to the indigenous people who depend on those resources. In particular, as you may be aware, the House Banking Subcommittee on International Development Institutions and Finance has held five hearings in the past sixteen months on the multilateral banks and the environment, culminating with hearings last month on specific recommendations on measures to improve the environmental performance of the World Bank and other MDBs. In addition, the Senate Appropriations Committee has expressed its agreement with the concern of a number of U.S.-environmental organizations "over the lack of environmental consideration given by the World Bank in the formulation of its projects," and has directed the U.S. Treasury Department "to press the issue of the environment with the Bank. Recently, the House Science and Technology Subcommittee on Natural Resources, Agriculture Research and Environment held the first of a series of hearings on the environmental impacts of World Bank and other MDB agricultural projects which resulted in Chairman of that Subcommittee sending a letter of concern to the U.S. Treasury Department and Executive Director requesting that the Bank take measures similar to the ones we have outlined to deal with the urgent and disturbing problems relating to the Bank's involvement in Polonoroeste.

In the future, we urge the Bank to seriously reconsider the implications of funding programs such as Polonoroeste. These programs which serve as "escape valves" for the human consequences of government economic policies and gross inequalities in land tenure in other parts of the country, which have resulted in the migration of millions of rural farmers over the past decade and a half. The financing of the settlement of tens of thousands of families in ecologically dubious and unsuitable areas of the Amazon is clearly not a viable solution to these complex problems. In particular, by financing the construction of roads and other infrastructure in such areas (in the case of Polonoroeste, over half the Bank's financial commitment), the Bank contributes to untenable migration rates which result, as in the case of Polonoroeste, in accelerated, rampant deforestation, invasion of Indian lands, and destruction of natural areas unsuited for agriculture but possessing tremendous biological significance.

We have enclosed two memoranda that outline some of the major deficiencies in the implementation of the environmental and Amerindian components of Polonoroeste.

We wish to underscore the urgency of the situation in Polonoroeste and the need for the Bank to implement immediately the measures we have outlined and the measures which the Chairman of the House Science and Technology Subcommittee on Natural Resources, Agriculture Research and Environment is requesting the Bank to act upon. To ensure that Bank loan conditions are respected in the future, the Bank must exercise its maximum leverage in this situation, including reconsideration of planned funding for other agricultural projects in Brazil. At stake is the ecological survival of an area larger than Great Britain and the very lives of its thousands of indigenous inhabitants, as well as the credibility and image of the World Bank.

The profoundly disturbing situation in Polonocoeste underscores all the more the urgent need of the World Bank to undertake concrete measures and commit real resources, such as more professionally trained staff, to improve the ecological design and review of its projects. Further neglect and delay of the Bank in addressing these environmental management issues will not only inflict grave long-term damage on the Bank's image, but could ultimately undermine public and legislative support for funding of the Bank in its most important donor countries.

Sincerely,

Bruce M. Rich, Attorney
International Program
Natural Resources Defense Council

Thomas B. Stoel, Jr., Director
International Program
Natural Resources Defense Council

Barbara Bramble, Director
International Program
National Wildlife Federation

Jack Lorenz
Director
Izaak Walton League of America

Michael Bean, Director
Wildlife Project
Enviromental Defense Fund

Brent Blackwelder, Director
Water Resources Project
Environmental Policy Institute

Fran Lipscomb
Director of International Issues
National Audubon Society

Liz Raisbeck
Legislative Director
Friends of the Earth

Shelton Davis, Executive Director
Anthropology Resource Center

Kenneth I. Taylor
Executive Director
Survival International, U.S.A.

David Maybury-Lewis
Executive Director
Cultural Survival, and
Professor, Department
of Anthropology, Harvard
University

Dr. Roberto Cardoso de Oliveira
President, Associacao Brasileira
de Anthropologia
(Brazilian Anthropological
Association)

Deputado (Deputy) List Vieira
Lider do Partido dos Trabalhadores e Presidente
da Comissao Especial de Estudos Ecologicos a
Assembleia Legislativa do Estado do Rio de
Janeiro (Leader of the Labor Party and
President of the Special Commission on
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Nancy Oestreich Lurie
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Presidente
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Magda Renner
President
Acao Democratica Feminina Gaucha
(Feminine Democratic Action of
Rio Grande do Sul)
Porto Alegre, BRAZIL

The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street, N.W.
Washington, D.C. 20433
U.S.A.

(202) 477-1234
Cable Address: INTBAFRAD
Cable Address: INDEVAS

November 7, 1984

Mr. Bruce M. Rich
Attorney, International Program
Natural Resources Defense Council, Inc.
1350 New York Avenue, N.W. - Suite 300
Washington, D.C. 20005

Dear Mr. Rich:

I am writing to thank you for your letter and attached document to Mr. Clausen, dated October 12, 1984, regarding the Northwest Region Integrated Development Program (POLONOROESTE). As you are aware, POLONOROESTE is a carefully planned regional development program, which seeks to stabilize and maximize the economic development of the region, while minimizing the risks to the regional ecology and Amerindian populations. We very much share the concerns you have noted in your letter. We have discussed them in detail with the Brazilian authorities and are encouraged by those discussions to believe that effective action will be taken. We recognize, however, that close monitoring will be necessary and we will therefore continue to follow the situation very carefully. If and when appropriate, and consistent with our ongoing reviews of program implementation, we will recommend to the Government needed modifications to the design and implementation of the program so that its long-term objectives can be achieved.

You can be sure that the Bank is continuing to monitor the situation closely, and that your concerns will be considered as POLONOROESTE continues.

With best regards,

Sincerely yours,

Roberto Gonzalez Cofino
Chief, Brazil Division
Latin America and Caribbean
Regional Office

WASHINGTON POST, November 12, 1984

The Plight in Brazil's Northwest

Jackson Diehl's article of Oct. 31 ["Brazilians Seeking Fortunes Flock to Frontier"] presents a misleading and inaccurate picture of the situation in Brazil's northwest frontier. As an attorney with the Natural Resources Defense Council, I know that the vast majority of migrants who arrive in Rondonia do not find economic success, but rather poor tropical forest soils which cannot support small-farmer cultivation more than two or three growing seasons. By most accounts—including several witnesses at a Congressional oversight hearing held by Rep. James Scheuer (D-N.Y.) on Sept. 19—less than 10 percent of the soil in the Northwest Frontier is suitable for cultivation, and most of these were occupied years ago.

Migrants are pouring into Rondonia because hundreds of thousands of farmers have been displaced in recent years from the good agricultural lands of temperate Brazil by capital-intense large landholdings. This migration has been encouraged by government advertising touting the region as an Eldorado for the poor.

What is actually occurring in the Brazilian Northwest is a human and ecological tragedy of tremendous dimensions. The area has the highest deforestation rate in the Amazon and will be completely deforested by 1990 if present trends continue. There are at least 6700 Indians belonging to 34 tribes whose physical survival is threatened by occupation of their undemarcated lands and epidemics of measles and influenza. Migrants are abandoning deforested plots because crops fail on the acidic, leached-out soils. A huge World Bank-financed project to consolidate settlement in the region, for which the bank has lent Brazil $443.3 million has encountered grave problems; loan conditions concerning sound land use and protection of Indian lands have been systematically flouted.

It is unfortunate that The Post article emphasizes the very few successes of individual enterprise in the Brazilian Northwest, while failing to convey an idea of the large scale debacle that is occurring.

BRUCE M. RICH
Washington

The Failure to Protect Tribal Peoples—

The Polonoroeste Case in Brazil

Linda Greenbaum

The Polonoroeste project consists of highway resurfacing, the building of feeder roads, the construction of storage facilities, the titling of land, and other "development" measures in western Brazil. The World Bank contributed $412 million to the project. Serious doubts about the wisdom of this expensive project were voiced before loan arrangements were signed.

One concern about the project was its effects on the indigenous peoples of the area. Beginning in 1980, organizations concerned with the welfare of native peoples called for strict safeguards to protect the Indians of the project area from the expected huge influx of migrants. They argued that the agency officially responsible for Brazilian Indians, FUNAI, could not be trusted to design or implement adequate protection measures. In spite of these arguments, which were amply supported by historical documentation and expert opinion, the World Bank agreed to fund the Polonoroeste project and entrust Indian protection measures to FUNAI with only minimal, part-time supervision by one World Bank anthropologist who is inexperienced in Indian affairs.

Evaluation reports made by Brazilian investigators in 1983 for Fundação Instituto de Pesquisas Econômicas (FIPE) reveal that the program to safeguard Indian well-being has been, as predicted, a near-total failure. It is not possible to review the results of the whole project in detail, but by selecting a reasonable sample of affected tribes, the general patterns can be seen in concrete terms. To this end, aspects of the situations of the native societies in the vicinity of the Aripuanã Park (the Cinta Larga, Suruí, Gavião, and Arara Indians) are reviewed below.

Land

Almost everywhere severe land invasions are occurring which threaten the Indians' future. Little defense against these invasions is being offered by FUNAI, the official Indian defenders. In fact, since the project began, Brazilian law has been changed to make the demarcation of Indian lands even more difficult.

Several ranches have operated illegally on the territory of the Cinta Larga Indians for years. In Ouro Preto, a mining operation with 150 workers has been functioning since 1978 on the land of the northern Cinta Larga. No attempt has been made to expel these enterprises though they introduce fatal diseases, prostitution and social disruption to the Indians. The land interdicted for the northern Cinta Larga has yet to be surveyed and demarcated.

Many new problems are being ignored. A hydroelectric dam is being constructed on the headwaters of the Aripuanã River within the boundaries of Cinta Larga lands. The town of Espigão d'Oeste, with the support of the state government of Rondônia, wants to build a road cutting the Aripuanã Park in half. More incursions are reported in the southern part of the Cinta Larga land and in the east, Indians are in frequent contact with settlements along Highway BR-172. The boundaries of the Cinta Larga territory are not maintained and the perimeter is not patrolled.

The reserve of the Suruí Indians is readily accessible to outside observers and therefore has received more attention than less accessible areas. In 1981, eighty settler families were expelled from the reserve, ending years of conflict with the Suruí.

The land of the Zoró Indians, immediately to the north of the Suruí, has still not been surveyed and demarcated. According to the FIPE investigator, the FUNAI agent in charge of the Zoró reserve did not know where the boundaries were and had made no effort to determine if land invasions had occurred. A road from a large ranch is thought to illegally cross the Zoró land, but no effort has been made to investigate it.

The reserve of the Gavião and Arara Indians was invaded from the southeast in the summer of 1983. The local FUNAI personnel appear to have taken no measures to counteract this invasion, giving false assurances to the Indians instead. This lack of response encouraged other settlers, and there are now reported to be 750 settler plots cleared on Indian land. The Gavião Indians, furious with this massive encroachment, seized non-Indian hostages in the summer of 1984 and again in September. Violence is likely to occur if the responsible government agencies do not resolve the situation.

Health

In general the Indians most recently contacted are the most endangered by Western diseases. They also tend to be more inaccessible, less docile and, therefore, more neglected.

The health situation of the Cinta Larga is nothing short of catastrophic. It appears that many of the northern Cinta Larga have died or are dying due to a lack of preventive or curative treatment to combat Western diseases introduced by miners and settlers. A measles epidemic was reported in 1980 which could have been prevented by simple vaccination. Most Cinta Larga do not live on posts and so receive no medical assistance. Even on the posts medical attendants are seldom adequately trained, Indian agents know even less, and there is a high turnover rate for both. At the Serra Morena Post, where less than one hundred Cinta Larga live, twenty-two Indians died in 1980 and 1981. The infant mortality rate was over 50%. Vaccination is done haphazardly — only those Indians who happen to be close at hand when the Flying Health Team visits are vaccinated — and nobody is sure which Indians have or have not already been vaccinated.

The health situation of the other tribes is better than that of the Cinta Larga, and their populations are increasing. The infant mortality rate among the Suruí is about 25%. There is a new medical building among the Gavião, but its three beds are almost never used and the medical attendants come and go. Venereal disease is suspected among the Suruí and Gavião. One report states that only the Zoró children, not the adults, were vaccinated against measles, leaving the adults susceptible to a future deadly epidemic. It is not known if this faulty practice has been carried out among other tribes in the area.

Economics

During the past several years agricultural "development" projects have been instituted among most of the tribes under discussion. These have been collective, regimented projects which are contrary to native practices and to the goal of Indian self-determination. Local FUNAI personnel receive equipment and food to pay Indians who work as peons under their direction.

Among the Gavião Indians the first big collective cultivated was undertaken in 1980; it was poorly planned and failed. The second year production was more successful, but much of the rice could not be marketed and the coffee plants suffered from pests and diseases which the Indians could not control. Further, production goals were far in excess of local needs. Diet suffered as men were forced to hunt less and families became dependent on purchased food.

In 1983 the Zoró Indians were working eight-hour days under FUNAI direction. Elsewhere, regimented projects have waned as their funding was cut or they proved unsuccessful.

Education

Schools have been built for the Gavião, Suruí and Cinta Larga. However, few of the Indians speak Portuguese and there is no established curriculum. Among the Gavião less than 30% of the children attend school, and then only irregularly. The adults don't want to attend though they were avid students in previous years.

Indigenous Culture

Indian culture is generally being undermined, if not actively discouraged. The Zoró were told to practice monogamy and live in individual Brazilian-style houses instead of the traditional big houses. They are now ashamed of their own religion and customs and hold Protestant services on Fridays and Sundays. The FIPE investigator had an impression of "galloping cultural impoverishment." Among the Zoró and the other tribes, the drive to turn Indians into peons has interfered with the practice of native customs.

Conclusion

From the above cases it is evident that the World Bank made a major error in trusting the Brazilian government and its officially designated agency, FUNAI, to safeguard the interests of the Indians in the Polonoroeste project area. A pattern of willful ignorance by FUNAI staff has emerged — invasions of the Gavião, Zoró and Cinta Larga lands were and are being ignored. The number and location of the Cinta Larga Indians has not even been determined. Cosmetic measures of no real value to the Indians abound: schools which do not function, pharmacies with no trained medical attendant, "agricultural assistance" to peoples who have subsisted nicely on their own for thousands of years, and a Flying Health Team which does not reach Indians off posts and doesn't know who has or has not been vaccinated.

Money and effort are being misdirected and wasted on these measures while real, serious needs are being ignored. For example, instead of using food and equipment to pay, through the food for work programs, for regimented agricultural projects among the Cinta Larga, Zoró and Gavião Indians, the same resources could have sponsored a workforce of Indians to reopen the trails marking reserve boundaries and to patrol those boundaries. This would have forestalled invasions and not interfered with tribal life. Vaccination of the Cinta Larga could be done in a few months by a competent paraprofessional team (perhaps contracted from outside FUNAI) charged with that specific task. This would save many lives and even save money in the long run by reducing air evacuation and hospitalization costs.

World Bank policy is that loans for areas inhabited by tribal peoples should only be made if the well-being of the affected peoples can be guaranteed. In the Polonoroeste project, they have violated their own policy. The World Bank should refuse further loans to Brazil unless the grave and deteriorating situation of the Indians in the Polonoroeste area is improved. One way to end the total reliance on FUNAI would be to set up a committee appointed by the Brazilian Anthropological Association which would gather information, formulate specific measures for the Indians, and direct their implementation. The FIPE evaluators would be obvious candidates for such a committee. Just giving FUNAI more funds for its misdirected programs is no solution; it simply rewards failure.☐

Linda Greenbaum is a pseudonym.

INDIAN PEOPLES IN BRAZIL/83

Cultural Survival is happy to announce that it is distributing *Povos Indígenas no Brasil/83*, the new publication from CEDI (Centro Ecumênico de Documentaçáo e Informação). This 248 page book includes the newspaper clippings of 1983 that covered Brazilian Indians as well as summaries of the major problems confronting Indians in different parts of the country. To order, send $15 to Cultural Survival, 11 Divinity Avenue, Cambridge, MA 02138.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

DEPUTY ASSISTANT SECRETARY

FEB 21 1985

Dear Bruce:

I want to belatedly express my appreciation to you and your colleagues for the suggestions in your January 10 letter.

As you know, the United States Executive Director at the Inter-American Development Bank abstained on January 23 when the project came up for a vote. The basis for our abstention was that the negative economic consequences associated with the environmental dimensions of this project were too adverse to justify the loan proposal.

I believe the meetings and events over the last three months related to this project have been an enlightening experience for all of us. Again, thank you for your contribution.

Sincerely,

James W. Conrow
Deputy Assistant Secretary
for Developing Nations

Mr. Bruce M. Rich
Attorney, International
Program, Natural Resources
Defense Council, Inc.
1350 New York Avenue, N.W. Suite 300
Washington, D.C. 20005

DEFENDERS – Mar/Apr 85

Debacle in the Amazon

In Brazil, development backed by U.S.-dominated multilateral banks is destroying part of the world's greatest rain forest

by Pat Aufderheide and Bruce M. Rich

DEEP in the rain forest of the the upper Amazon, miles from a newly paved highway, an Indian of the Uru-eu-wau-wau tribe delicately fingers an odd piece of ridged metal. It is the top of a soda-water bottle, discarded by the child of a local settler. He takes it back to his village to amuse his son, who is coughing with a disease that has no name.

Nearby in a small clearing, a farmer looks despondently over his wilted field of rice. The crop should be ready for harvest, but in only the second season it has failed even to yield enough for the family's needs. When he moved with his wife, four children and a cousin to the state of Rondonia, the government promised him a homestead title in exchange for five years on the land. Now he is hoping he can stake a new homestead in virgin rain forest farther up the Amazon basin.

Each day, as chainsaws and tractors push into one of the world's last great reserves of biological diversity, Indians and farmers are playing out roles in a tragic scenario. But they are not alone. There is a leading actor missing from this picture: a development bureaucrat.

The development bureaucrat has

long been a shadowy figure behind the bulldozers and bank loans that are deciding the fate of the Amazon rain forest and its inhabitants. But over the last two years, a campaign has been waged in a world financial center—Washington, D.C.—to put development economists and planners back into the picture. The campaign, involving environmentalists, supporters of Indian rights, members of Congress and Reagan administration officials, seeks to enlist them in defense of the environment.

Ecologists have long been alarmed over destruction of the world's tropical rain forests, which are biological banks for the future and home to some of the most ancient and ecologically wise human cultures. As Catherine Caufield notes in her new book, *In the Rainforest: Report from a Strange, Beautiful, Imperiled World*, man already has destroyed half of this irreplaceable resource. Most of the destruction has occurred since World War II.

Brazil alone has a third of what remains. And in Brazil the dramatic danger to this lush-looking but all too fragile ecosystem can be seen vividly. There, brazil-nut and mahogany trees, turtles and tapirs can be counted among perhaps a million plant and animal species. Biologists have barely begun to probe the forest's diverse biological riches, and they are racing against time, because in the Amazon basin a war against the future is going on in the guise of what the Brazilian government proudly calls "the largest agrarian reform project ever attempted." The Brazilian government, saddled with one of the world's largest international debts, has been promoting the Amazon basin as a new frontier, especially for large-scale and capital-intensive development schemes—huge dams for generating electricity, cattle-ranching, mining, cash-crop farming.

Standing in the way of development dreams are miles of trackless forest. With slogans such as "The Bold Ones March Westward," the government in the last decade has launched an unprecedented assault on the forest. And the assault has been so successful that one noted ecologist, Dr. Philip Fearnside, has estimated that at the present rate not a single tree will be left standing in the state of Rondonia—an expanse the size of West Germany—by 1990.

Many environmentalists believe that Brazil is not only jeopardizing world ecology but also robbing its own economic future. Therefore they point with alarm to the key role played in large-scale ecological and economic transformation by multilateral development banks.

These huge banks, which began after World War II when the World Bank was founded to bankroll European reconstruction and Third World development, are funded by national governments, with the United States contributing the biggest share of any country. Of the existing four institutions, the World Bank and the Inter-American Development Bank (IDB) are essential to Latin American development projects. The United States contributes 20 percent of the World Bank's funds and 35 percent of the IDB's funds—and gets a corresponding share of the votes in the institutions' decisions. The two banks in 1983 alone contributed $6.46 billion to Latin American projects, and since the banks deal only in million-dollar figures, the money typically goes to expensive projects such as hydroelectric and large-scale agricultural schemes. Once these banks approve a loan, private bankers leap in to fund a project; private capital often matches development-bank investment at a three-to-one ratio. The multilateral development banks' money, in short, is the motor behind big Third World development.

But is it development or is it debacle? The doubts of environmentalists and supporters of Indian rights are spreading to the halls of Congress and even into the plush offices of the Washington, D.C., headquarters of the banks, as the results of one huge and disastrous project come in. The Northwest Regional Development Project, known in Brazil as Polonoroeste, involves some 100,000 square miles of tropical forest in Rondonia and western Mato Grosso, where the Brazilian government has already cut a 900-mile road called BR-364. The government has invited hundreds of thousands of poor, landless peasants from other parts of Brazil to settle there, promising them some 39 towns where the settlers can sell their crops, send their children to school and get medical help for endemic malaria and other diseases.

The colonization plan limped along for years, until the government in 1979 asked the World Bank for a huge loan to help pave BR-364. But the bank was not blind to the region's problems: reports that the land was too poor to farm, that settlers were invading traditional Indian lands, that failing farmers were clearing huge strips of forest to prepare the land for cattle-ranching. Over the last 15 years, the bank has become increasingly aware of environmental questions, and it now has an office of environmental affairs. The office, however, employs only five of the bank's more than 6,000 staffers, and only one of them is a trained ecologist.

The bank's conditions for approving the Polonoroeste loans—which amount to 30 percent of the multi-billion-dollar investment—were several. The bank insisted on setting aside funds for biological reserves, a national park, four ecological stations and some national forest area. It also required the government to allot lands for 15 Indian parks and to protect the Indians' health. Finally, it demanded that farmers be given homestead land on fertile soil that did not threaten Indian lands or the health of the forest.

Five years later, the bank has committed nearly $500 million, in seven loans, to Polonoroeste. More than half that money has gone into paving the road—the only part of the project that has been completed.

"Empty-handed, they were arriving, ready to conquer the jungle. And they did it," boasts a Brazilian government brochure featuring the large family of Raul Ribeiro posed in front of a small house in the forest. From all over Brazil, people have arrived, desperate for a plot in a country where 43 percent of the farmland is owned by one percent of the people. And they have been showing up in ever-greater numbers since the bank pitched in to help Polonoroeste become Brazil's new frontier. In the years between 1978 and 1983, more than 275,000 settlers flocked to Rondonia. In 1984 up to October, more than 115,000 new settlers arrived.

Most did not have the happy experience that the Ribeiro family did. Many discovered instead that cash crops like rice and coffee need more than a tropical rain-forest environment has to offer. The tropical rain-forest soils are, in fact, among the poorest in the world. High temperatures and high rainfall combine to leach away minerals. They also break down clay in the soil so that it cannot hold these nutrients. The richness of the forest is all above the ground, in the trees and other vegetable matter. When the settlers slash and burn, the ashes float downriver along with the settlers' hopes.

The settlers also discovered that the promised towns and services were less than idyllic. At a demonstration to protest lack of government credit to small producers in Rondonia's capital, Porto Velho, last year, one settler said of his "urban nucleus": "We have lots of kids there, and people who need medical treatment, and the clinic is closed for lack of personnel."

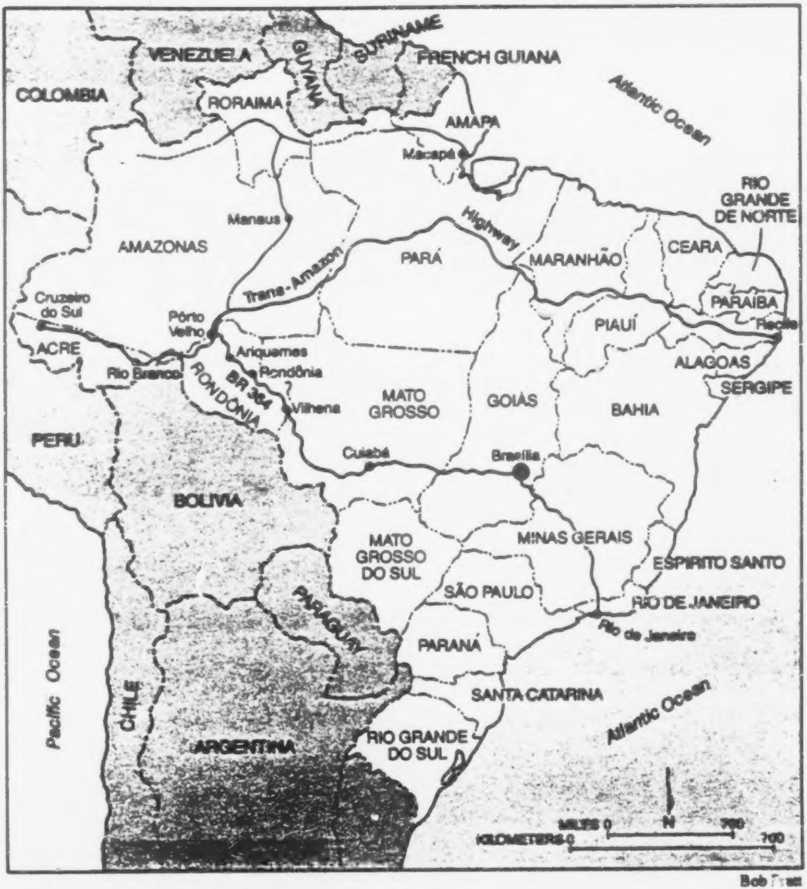
"There is precious little education up here," said another.

The settlers' options were so few on the poor soil, some pointed out, that many had taken to producing charcoal—the only saleable item. One man asked in indignation how he would be compensated for his claim when a nearby hydroelectric project flooded his land.

The World Bank has paid an expensive price for these settlers' bitter experience. According to one estimate the bank's investment in every family so far is $12,000 in current dollars—a figure that baffles many settlers who find themselves poorer after two years of farming than they were before.

The bank might have guessed that settlement was at least chancy, given earlier experience in the Amazon. In the Peruvian Amazon, a study of six earlier settlement projects found desertion rates up to 92 percent. In Brazil itself, an earlier such project proved a spectacular failure. The Trans-Amazon highway constructed in the 1970s was the centerpiece of a government plan to settle 5 million people south of the Amazon River. The project benefited indirectly from large multilateral bank loans for highway construction elsewhere in Brazil. Most of the settlers found they could not make a living off the land, and long stretches of the highway have been abandoned. Today a sign dangles from a tree along the road: "Next gas station, 980 kilometers. Beware of Indian arrows; drive with windows closed."

The Brazilian government, far from losing heart, keeps plowing on into the forest. It has already bulldozed a continuation of BR-364 into the neighboring state of Acre—an almost untouched expanse the size of Virginia where perhaps 5,000 Indians live. The road offers, for the moment, an escape route for failed farmers with nowhere to go back to. And as they abandon homesteads, more come to take their places. The government land agency, INCRA, has run out of land titles, and there are waiting lists two and three families deep for abandoned plots. Yet the government still encourages new arrivals. At a demonstration in the south of Brazil where landless peasants gathered to protest their plight, an unmarked car pulled up and out of it were thrown hundreds of leaflets promoting settlement in the Polonoroeste region.


VENEZUELA
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Manaus
Highway
AMAZONAS
PARÁ
MARANHÃO
CEARA
Trans-Amazon
Cruzeiro do Sul
Pôrto Velho
PARAIBA
PIAUÍ
Recife
ACRE
Ariquemes
Rondônia
ALAGOAS
Rio Branco
BR 364
RONDÔNIA
Vilhena
MATO GROSSO
GOIÁS
BAHIA
SERGIPE
PERU
Cuiabá
Brasília
BOLIVIA
MATO GROSSO DO SUL
MINAS GERAIS
ESPIRITO SANTO
SÃO PAULO
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Bob Trast

The Inter-American Development Bank apparently shares the Brazilian government's optimism. It recently approved a $73 million loan to help pave the continuation of BR-364 into the state of Acre.

On paper, Polonoroeste is a celebration of the yeoman farmer. But when farms fail, the one-time rain forest quickly becomes a field for cattle ranchers and land speculators. The majority of small farmers own no cattle at all, but already 80 percent of them have cleared forest for pasture, hoping to increase the land's sale value. The problem, according to Brent Milliken, an environmental expert who performed an independent evaluation of the World Bank program in the area last year, is twofold: the clearing erodes the soil, and land is also quickly invaded by noxious weeds, which cattle cannot use as fodder. But many potential purchasers do not care. Speculation is often more lucrative in the short run than productive use of the land.

Cattle-ranching in the Amazon is one of the nightmares of an ecologist like the World Bank's Robert J. A. Goodland, who points in exasperation to the Amazon's wealth of forest animals and fish as much better—and renewable—development resources. Some economists argue that only government subsidy makes cattle-ranching temporarily profitable on tropical soil. But even when it is viable, cattle-ranching produces few jobs and destroys the potential for a rain forest to return.

Yet cattle-ranching has been one of the favorite investments of multilateral development banks over the last two decades in Latin America. According to distinguished Mexican sociologist Ernst Feder, no single commodity in the Third World has received such extraordinary outside subsidy as livestock in Latin America. More than half the World Bank's cumulative agricultural lending in Latin America through 1980 went for livestock activities, according to economist Cheryl Payer.

In thatched-roof hamlets dotting the rain forests live peoples who may have the answer on how to live in the forest for the long haul. They are the thousands of Indians—6,700 counted in the Polonoroeste project area alone and more as yet uncontacted—in dozens of highly distinctive tribes. Most of the known tribes are gardeners as well as hunters and have a deep traditional knowledge of soil fertility. Unlike cash-cropping settlers, they plant gardens rich in crop variety. Their typically small patches are usually cultivated for only two or three years before the forest is allowed to reclaim the land. The Indians may be the only experts capable of identifying the forest's astounding biological diversity. One tribe recognizes 18 different varieties of manioc, the staple crop of the Amazon, while only two varieties are yet recognized in biological taxonomy.

Many of these peoples have already paid the price of progress, in initial contact that devastated a tribe like the Surui, which in three years lost half its 600 members to new diseases such as measles and influenza. Those who survive face a new threat: the invasion of their lands by settlers desperate to stake a claim on land good enough to farm.

The Polonoroeste program, thanks to World Bank pressure, included from the start the marking off of land to be reserved for Indians. But most of the demarcation has yet to be done, and it gets more expensive to do with every new claim from settlers or—more likely—speculators. The consequences can be dangerous for everyone. In one place, the Lourdes Indian reserve, more than 750 settler families have moved into Indian land. In an attempt to dramatize their crisis, the Indians finally seized a dozen hostages for several days. The effort netted them newspaper articles, but no government action. In the Aripuana Indian park, conflict erupted when a 9-year-old girl of the Cinta Larga tribe was raped by workers on a hydroelectric project. The chief of the tribe threatened to kill the invaders. In other areas, settlers have lost their lives to angry Indians, and one 7-year-old settler boy was captured and later killed. But many more Indians are dying as a result of colonization.

The World Bank, itself under pressure from supporters of Indian rights in both the United States and Brazil, repeatedly has urged the Brazilian Indian agency to protect the Indians' land. One group of the Nambiquara has seen a shrunken version of its land claims validated with demarcation. A few clinics and other health projects have dramatically improved the health of surviving Indians. But most tribes have continued to see their ancestral lands invaded, with no security for the future. And far from demanding that the Brazilian government comply with its explicit requirement to demarcate Indian lands before releasing the next installment of its loan, the bank has actually speeded up payments to keep up the progress of road paving. The IDB's loan to help pave the continuation of BR-364 into Acre will put in jeopardy the lands and lives of the thousands of Indians living there now.

"With the extinction of each indigenous group," says anthropologist Darrell Posey, "the world loses millennia of accumulated knowledge about life in and adaptation to tropical ecosystems."

The destruction of the forest, remarks Dr. José Lutzenberger, goes hand in hand with destruction of cultures. "The loss of these cultures," he says, "is just as irreversible as the loss of a species."

The crisis far away in the Amazon rain forest became the subject of public debate in the halls of Congress in 1983. The process was set in motion by representatives of three environmental groups—the Natural Resources Defense Council, National Wildlife Federation and Environmental Policy Institute—that shared a concern about ecological devastation promoted by development projects. Prompted by their alarm, longtime conservationist Representative Mike Lowry (D-Washington) moved to introduce an environmental-action amendment into legislation authorizing funds for multilateral development banks. Then-Representative Jerry Patterson (D-California) instead suggested holding hearings on the issue. The House subcommittee he chaired, which deals with international development finance, held a series of five hearings in 1983 and 1984. Information long buried in private bank evaluation reports became public record.

"We are not singling out the multilateral development banks as villains or assigning blame," testified the National Wildlife Federation's Barbara Bramble on the first day of hearings. "We do see serious problems they are causing or perpetuating through lack of environmental planning." She pointed out that sound economic development is essential to long-term resource conservation, but said her organization was alarmed that "this invaluable resource, which is a tropical forest, is being cut and degraded for short-term use."

The next day, David Price, who had worked as an anthropological consultant to the World Bank, soberly warned members of Congress that Indians' lives and health were endangered. "One cannot help but feel," he said as he summarized his frustrations, "that the World Bank is much more concerned with images than with the welfare of the native minorities."

As the hearings proceeded to examine health issues and to expose hazards of pesticide use in Third World development projects, Congressman Patterson asked Secretary of the Treasury Donald Regan to get some explanations for the World Bank's actions. The result was more than a thousand pages of information that provide the most detailed public evidence to date on the bank's environmental policies.

The connection between development banks and the future of rain forests was also made when the Natural Resources Defense Council, on behalf of seven environmental organizations, testified at Senate hearings held in February, 1984, to consider appropriating money to one division in the World Bank, the International Development Association. Senator Robert Kasten (R-Wisconsin), the subcommittee chairman, had long been critical of international development lending. Worried about the bank's bottom line, World Bank President A. W. Clausen agreed to environmentalists' requests for a meeting before the hearings. "Don't hold IDA hostage to the environment," he begged them, arguing that the bank's environmental concern was greater than its reputation suggested.

When environmentalists testified before Senator Kasten's subcommittee, they did support funding of the bank. They also suggested ways to make sure the bank would at least observe its own environmental conditions on loans. The committee agreed with them, adopting their recommendations and also directing the Treasury Department—which tells the bank's U.S. representative how to vote—to monitor environmental issues. It also required the bank to report back within a year to demonstrate improvement in its environmental record.

When the five Patterson subcommittee hearings finally wound to a close last September with a review of recommendations to improve World Bank environmental policy, the Treasury official responsible for development issues, James W. Conrow, was there. "In appearing before you in June, 1983," he said, "I could honestly say that I was unaware of particular problems." Calling the testimony he had heard "surprising and distressing," he went on to say that he had checked it for accuracy. "We found substantial corroboration of the information presented by most of the witnesses," he said. He also endorsed most of the recommendations, which included boosting the environmental staffing for banks and starting environmental training programs in the Third World, as well as involving environmentalists and indigenous peoples in development project planning from the start.

Of key importance was one committee recommendation: that U.S. representatives to multilateral development banks actively promote environmental concerns. The Treasury Department, the agency to which they answer, will be reporting back to Congress on their progress.

Polonoroeste itself took center stage in a House of Representatives hearing last September. Representative James Scheuer (D-New York), head of an agricultural research subcommittee, had found environmentalists' testimony in other hearings deeply disturbing. He scheduled a hearing in which the agricultural implications of the Polonoroeste case were explored.

The unlikely star of the hearing was Brazilian agronomist José Lutzenberger, a gentle, middle-aged man who had left a job with a chemical company to devote his life to environmental issues. He had helped an English filmmaker, Adrian Cowell, produce a film chronicling Amazon development called *Decade of Destruction.* Following a clip from the film showing a hellish red-gray fog arising from forests burning for profit, he spoke on behalf of Brazilian environmental groups.

He argued that the government's promotion of "green revolution" strategies—high-yield, capital-intensive agriculture—had paved the way for this disaster just as surely as the new road had. It had thrown peasants off good farmland in the south of Brazil, while making the fortunes of a few. Polonoroeste, he charged, has one main objective: to transplant the agricultural poor. "There are at least 2.5 million landless poor in Brazil today," he told the committee, "and the Polonoroeste project is designed as a safety valve for the political and social pressures caused by them." Worse, he added, "it transfers them from rich soils, in a subtropical climate, which can recuperate relatively quickly, to poor tropical soil where deforestation does permanent damage."

Lutzenberger's testimony bridged the gap between the banks and the rain forests in another way as well. His appearance in Congress made nightly TV news in Brazil. His comments, as well as the film's glimpses of rain forest devastation, reached at least 30 million viewers there. Ironically, Brazilian television had balked at covering the same story, with the same footage, when Lutzenberger had made it available earlier.

The original core group of environmentalists had grown in the meantime. Representatives of 31 organizations—including the National Audubon Society, American Anthropological Association, European and Brazilian environmental and Indian rights groups and political parties in Brazil and West Germany—signed a letter submitted by the Natural Resources Defense Council directly to World Bank President Clausen. The letter cited reasons for immediate environmental action and proposed specific measures the bank could take. It reached Clausen's office the same day that the New York *Times* carried a story on the Polonoroeste project headlined, "World Bank Urged to Halt Funds for Amazon Development."

But bankers are used to operating behind closed doors, and the World Bank is not accustomed to pressure from outsiders regarding its loans. The letter drew a reply familiar to those who had listened to the bank's 1981 assurance that whatever it contributed to the Polonoroeste project would be better than nothing. A bank official assured the signers in a short paragraph that the bank realized the situation required close attention and that it had met with the Brazilian government. "You can be sure that the bank is continuing to monitor the situation closely, and that your concern will be considered as Polonoroeste continues," it ended.

Senator Kasten was outraged. "It is difficult," he said, "to appropriate money to the World Bank when it has offered a response that is basically insulting to environmental organizations that are its natural supporters." And he followed his words by submitting the substance of the environmentalists' letter to the Secretary of the Treasury, this time asking for a full reply from the bank. He also asked to see key bank documents explaining the reasons behind the original loan approval.

He is not the only one who is watching the World Bank's future environmental policy closely. The Treasury Department now expects regular reports, and State Department officials concerned with international development have met with environmentalists and Indian rights supporters.

Back in the rain forest, pressure is building. Impoverished settlers and embattled Indians come ever closer to violent conflict, while forests continue to be stripped and burned each day. But now, pressure is building in meeting rooms in the banks as well, where canceling future loan installments to Polonoroeste has become an uncomfortable subject of discussion.

If closer attention is paid to environmental and indigenous peoples' concerns at the outset of such loans, the banks may yet play the positive ecological role that they so long ago assumed as their responsibility. ☐

Pat Aufderheide is a Washington, D.C., writer who has lived with the Krenakore Indians in Xingu National Park in Brazil's Amazon basin. Bruce Rich is an attorney with the Natural Resources Defense Council in Washington, D.C.

How You Can Help Stop Amazon Deforestation

LAST FALL the House Banking Subcommittee on International Development Institutions and Finance urged a number of actions by multilateral development banks to give greater emphasis to environmental factors in loan decisions affecting developing nations. The Treasury Department agreed to help promote the recommendations through the U.S. executive directors of the banks.

Among steps the banks should take, the subcommittee said, are:

- Increase environmental staffing, including assigning a full-time environmental staff member to each of the World Bank's six regional offices and establishing a central environmental office in the Inter-American Development Bank.
- Involve nongovernmental conservation organizations and indigenous peoples of developing countries in planning and carrying out projects.
- Actively involve the ministers of environment and health of developing countries in formulating policies.
- Make plans and strategies conform to the 1980 World Conservation Strategy.
- Commit staff and money to carrying out the pledges made in the banks' 1980 Declaration of Environmental Policies and Procedures Relating to Economic Development.
- Refuse to finance projects that will result in use of natural resources at unsustainable levels, threaten species extinctions, degrade protected natural areas or degrade the land and resource base on which indigenous peoples depend.
- Devote more resources to small-scale appropriate technologies instead of giant dams, highways and similar large-scale, capital-intensive projects.
- Cease financing roadbuilding and settlement projects in tropical forests.

To help curb rain-forest destruction in Brazil and other Latin American nations, write to the following urging immediate implementation of the House Banking Subcommittee's environmental recommendations:

A. W. Clausen, President
World Bank
1818 H Street, N.W.
Washington, DC 20433

Antonio Ortiz Mena, President
Inter-American Development Bank
1808 Seventeenth Street, N.W.
Washington, DC 20577

Also write the U.S. executive directors of the two banks, James B. Burnham, World Bank, and Jose Manuel Casanova, IDB.

IS ACRE'S TURN NEXT?

Another Amazon state is on the verge of disastrous de-greening

by Stephan Schwartzman

EVEN as northwest Brazil's huge Polonoroeste project area experiences disastrous deforestation from World Bank-financed development, the same process may be unfolding in the neighboring state of Acre. This time the multilateral bank involved, the Inter-American Development Bank (IDB), is taking a different tack. But environmentalists are asking whether the end result will be the same or even worse.

Acre, about the size of Virginia, embraces some 92,000 square miles at Brazil's western extremity. Until the mid-70s it was known best as a remote but profitable rubber-producing region. The rich Acre rain forest then remained 97 percent untouched. But with the arrival of agribusiness, speculators and growing throngs of migrants, deforestation is accelerating. If it continues at the present rate, say informed scientists, in another decade no forest will be left.

BR-364, paved through World Bank loans, is bringing 13,000 people a month into the state of Rondonia. But Rondonia has no more land for settlers. Authorities plan to send them on to Acre, to the adjoining state of Amazonas and to Roraima Territory farther to the north. This migration will be greatly aided by a newly approved $58.5 million IDB loan for paving some 300 miles of BR-364 from Porto Velho, capital of Rondonia, to Rio Branco, capital of Acre.

The main problem with the BR-364 project is that a detailed environmental-protection plan will be prepared only as the present dirt road is actually being paved. The bank claims that it will impose strict conditions on later loan disbursements. "But this will amount to closing the barn door after the horses have been stolen," says Bruce M. Rich, attorney with the Natural Resources Defense Council. Rich and other environmentalists, along with supporters of Indian rights, contend that the project will spawn unsustainable land use, deforestation, invasion of Indian lands and land conflicts. They point out that in Rondonia's Polonoroeste project, protection plans were prepared much earlier and were more comprehensive but still did not work.

Already, conflicts over land have flared in Acre, and some fear that increased migration will cause these to multiply dramatically. Last year, a senator from Acre appealed directly to Brazil's President Joaó Figueiredo to halt the influx. In December, Acre Governor Nabor Junior called the present level of migration unsustainable. Yet the governor wants the road paved to bring in supplies and to take cash crops to market. Approximately half the land in the state already belongs to interests in the industrial south, many of them speculators. A paved road would increase the value of their holdings. And the contractors whose heavy equipment paved BR-364 as far as Porto Velho have a considerable interest in keeping that equipment moving westward.

A report from Brazil's Indian protection agency, FUNAI, predicts that the road eventually will affect more than 8,000 Indians as settlers spread up and down the river valleys it crosses. None of the 29 areas in Acre where FUNAI knows that Indians live is yet officially demarcated, which means that their lands are unprotected against invading settlers and land speculators. Since the mid-70s, violent confrontations between Indians and big landowners or the military police have been common. The IDB-financed paving project will greatly increase the threat to the Indians' future.

No one expects that the road will stay unpaved indefinitely, but the Brazilian government and IDB planned the project so hastily that many outside observers have become alarmed about its consequences. This past January, NRDC, other environmentalists and Indian rights advocates requested and obtained an unprecedented meeting with bank policy-makers. They emphasized the possibility of a repetition of the Polonoroeste debacle and suggested modifications of the loan agreement—including prior demarcation of Indian lands—aimed at preventing potential problems.

The bank managers listened. Although insisting that the bank's concern with the environment predated the meeting, an IDB spokesman later declared: "The meeting with representatives of a spectrum of the environmental community on the Brazil project was the first of its type, and we believe it was helpful." What steps will actually be taken on behalf of the environment and the Indians, however, remain to be seen.

Meanwhile, NRDC Attorney Rich called the attention of the U.S. Treasury Department to the environmental problems of the project. As a result, loan approval was delayed for several weeks. When the loan finally came up for a vote on January 23, U.S. Executive Director Jose Manuel Casanova abstained on instructions from then Secretary of the Treasury Donald Regan—the first time a U.S. executive director of a multilateral bank has withheld endorsement of a loan on environmental grounds.

Because of the abstention, $14.5 million from the bank's Fund for Special Operations was blocked, reducing the $73 million slated for the loan by that amount. Commenting later, a Treasury spokesman said, "On balance, we felt the economic gains did not justify the costs. In short, the project was not a good investment for the IDB." Cited among the costs were "the unsustainable nature of the agricultural development likely to take place on the poor soils in the region and the heavy deforestation expected with road construction."

Some observers believe that, coming on the heels of the criticism of Polonoroeste, this will help set a new tone for multilaterally financed rainforest development. Certainly it is encouraging that government officials and development planners have proved willing to consider environmental and human costs along with more traditional economic costs. This proves that environmental organizations have been getting their message across. Nonetheless, these gains could evaporate unless environmental groups continue to press the issue.

In the world of multilateral banks, one loan begets another. While so far IDB-financed pavement reaches only into the eastern tip of Acre, it is rumored that the state and federal governments contemplate paving BR-364 from one end of the state to the other, as well as requesting further World Bank loans for Polonoroeste-like development.☐

Stephan Schwartzman, who lives in Washington, D.C., recently spent a year and a half conducting anthropological research in an Indian community in central Brazil.

CONTINUED WORK ON ENVIRONMENTAL PROBLEMS WITH MULTILATERAL DEVELOPMENT BANKS

Senator KASTEN. We thank both of you for your testimony. I am pleased that we have been able to work together on environmental matters with the multilateral development banks. I will continue to work with you, seek out your advice. I think that we are making some progress. At least, we are seeming to get their attention, and that is the first step.

I might say to you that within the last few days, Mr. Clausen has invited me to meet with him, with whoever I would like to bring, in order to discuss and to work with these issues. Frankly, between the flat tax proposal, the Budget Committee, product liability, the Commerce Committee, FTC, and CPSC, we have not found the time. But at one point, I think that is the next step.

We clearly have gotten their attention, and we appreciate your testimony here this morning.

Mr. BLACKWELDER. We commend you for the leadership that you have demonstrated in this area.

Senator KASTEN. We are going to work together, and we thank you both very much. I think that we ought to assume that at one point in the next several weeks, we are going to sit down and meet with Mr. Clausen, and we are going to start to get a little bit more specific on some of these important issues. Thank you very much for your testimony.

RETURNED PEACE CORPS VOLUNTEERS COMMITTEE

STATEMENT OF ROGER LANDRUM, PRESIDENT, WASHINGTON, DC, RETURNED PEACE CORPS VOLUNTEERS COMMITTEE

ACCOMPANIED BY CHARLES SMITH

PEACE CORPS REVITALIZATION

Senator KASTEN. Our next witness is Mr. Roger Landrum, who is the president of Washington, DC, Returned Peace Corps Vounteers Committee.

Mr. LANDRUM. Thank you, Mr. Chairman. My name is Roger Landrum, and I am president of the Washington, DC, Organization of Returned Volunteers. This is my colleague, Charlie Smith. The two of us serve on a committee on the Peace Corps budget, which represents returned Peace Corps groups in 25 States, and a National Council of Returned Peace Corps Volunteers. We are submitting written testimony for the record today.

Next year will be the 25th anniversary of the Peace Corps. Over 100,000 Americans have served their country and developing nations in the Peace Corps through thick and thin over the last 24 years, establishing a record of cost-effective, pragmatic, and respected achievement in developing countries. However, the Peace Corps faced years of erosion in its budget, in the number of volunteers overseas, and in a number of host countries.

Today the Peace Corps is being revitalized in our opinion. Two features account for this new vitality. One is the wisdom of Congress which has increased the Peace Corps budget by about 10 percent for the last 2 years. The other is President Reagan's Peace Corps Director, Loret Ruppe, who is clearly the most gifted leader the Peace Corps has had since Sergeant Shriver.

We urge the Senate to continue a steady-as-she-goes policy of rebuilding the Peace Corps. Specifically——

Senator KASTEN. We have done even more than that, as you are aware. We have bumped it a little bit, so we are going steadier as you go.

Mr. LANDRUM. That is what we want.

Senator KASTEN. That is at the bottom of the testimony.

INCREASE IN VOLUNTEERS

Mr. LANDRUM. Specifically, we recommend another 10-percent increase in the number of volunteers, or a budget of $142 million for the worldwide operation next year.

As you know, the Peace Corps budget this year is $128.6 million, thanks to you and others. The administration has asked for $4.2 million cut in that budget. We estimate that this would reduce the Peace Corps to 5,200 volunteers, which is the current level, down to 4,800 volunteers, and we see this as a step backward. A budget of $142 million would allow a modest expansion to 5,730 volunteers during the period of the 25th anniversary.

AFRICAN FOOD SYSTEMS INITIATIVES

In addition, because of the extraordinary circumstances of famine in Africa, where both Charles Smith and I served in the Peace Corps, we urge a special $10 million appropriation for Loret Ruppe's African food systems initiatives. This is one of the most imaginative program adventures by the Peace Corps in years, and it merits Senate support.

As you know the need in Africa is very great, and this program would be addressed to long term agricultural development, and giving Peace Corps Volunteers a central role in that.

REBUILDING PEACE CORPS

Finally, we support establishing a policy goals of rebuilding the Peace Corps to 10,000 volunteers step-by-step over a period of several years, and we strongly support the removal of Peace Corps country director appointments from the political test. Under Democrat and Republican Presidents over a period of years, White House control of peace corps country director appointments has all too often saddled Peace Corps Volunteers in the field with ineffective leaders where it hurts most, on the frontlines of service overseas. We think this test should be removed.

Mr. Chairman, to summarize, let's continue to rebuild the Peace Corps in the 25th anniversary year of its founding. We thank you for calling upon Returned Peace Corps Volunteers to offer testimony today.

[The prepared statement of Mr. Landrum follows:]

Prepared Statement of Roger Landrum
President
Returned Peace Corps Volunteers Committee

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE:

We appreciate the opportunity to appear before this Committee to discuss the Peace Corps Budget for Fiscal Year 1986. Our group was created by the Returned Peace Corps Volunteers of the Washington, D.C. area, but it now also represents the National Council of Returned Peace Corps Volunteers and its 23 member organizations in 25 states.

In his State of the Union Address, President Reagan said:

> "From thousands answering Peace Corps appeals to help boost food production in Africa to millions volunteering time, corporations adopting schools and communities pulling together to help the neediest among us at home, we have refound our values."

We agree. Those potential volunteers -- 14,000 as of mid-February -- represent a vital segment of American life. They can do a great deal to help the peoples of sub-Saharan Africa boost food production, but only if the Congress funds the Peace Corps adequately.

Congress should appropriate $142 million for the Peace Corps in FY 1986 to support a modest expansion of current worldwide operations as well as the additional

$10 million for food production programs in Africa called for in the Leach-Kostmayer Bill, H.R. 1364 and the additional $16 million proposed for new Peace Corps programs in the Caribbean by Rep. Dymally's Bill, H.R. 962. In addition, to reaffirm this nation's continuing commitment to these goals, the Congress should enact the Leach Bill, H.R. 1121, that calls for a return to a 10,000 volunteer Peace Corps by 1989.

We believe that this country has refound the values that underlie Peace Corps service. Our group was formed two years ago to express the concern we former volunteers feel over the Peace Corps' inadequate funding. We had seen the Peace Corps shrink from a peak of 15,556 volunteers in 1966, to a low of less than 4,700 in 1983. In 1984 the Congress began to reverse this decline, appropriating for the Peace Corps enough money[1] to field approximately 5,000 volunteers that year and 5,200 in 1985. Even more heartening, Committees of both Houses of Congress last year embraced the concept of a national goal of a 10,000 volunteer Peace Corps by 1990.

It is unfortunate that the FY 84 and FY 85 increases in Peace Corps' funding had to be legislated in the face of proposed cuts. For all the Peace Corps' popularity, we watched with dismay as year after year the budget ax fell heaviest on this Agency. Apparently, FY 1986 is to be no exception. The Administration has proposed a Peace Corps Budget for FY 1986 that would cut the number of volunteers in service. The Budget would lower the Peace Corps' appropriation by cutting $4.2 million from the FY 1985 level of $128.6 million. In effect, that Budget would cut the Peace Corps by 400 volunteers from the FY 1985 level of 5,200 volunteers to 4,800 in FY 1986. Any loss in the number of volunteers is a step in the wrong direction. This is not the time to eliminate Peace Corps volunteers.

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[1] The data are set out in Table A, hereto.

In the ordinary course, we would merely have asked the Congress once again to reject the proposed cuts and to follow up on the fine start of the last two years by adding $13 million to fund another 530 Peace Corps volunteers in Fiscal 1986. That step -- a 10% increase -- would demonstrate the Congress' continuing commitment to the Peace Corps as an institution. However, events in Africa have overtaken any question of institutional concerns, and we feel compelled to ask you to add another 2,000 to 3,000 volunteers to the Peace Corps' agriculture mission as part of an overall long-term development project for Africa.

Those of us who served in the nations of the Sahel know how hard it is to grow anything in those dusty-dry lands. An AID report from Addis Ababa accurately summed up the problem in Ethiopia, and several other lands, as

> "an environmental nightmare unfolding
> before our eyes . . . . It is the result
> of the acts of millions of Ethiopians

> struggling for survival: scratching the surface of eroded land and eroding it further, cutting down the trees for warmth and fuel and leaving the country denuded. . . . Over one billion -- one billion -- tons of topsoil flow from Ethiopia's highlands each year."

Some of the problems are beyond our help. Peace Corps volunteers cannot do anything about the bad weather, particularly the droughts that may have turned thousands of square miles of land irreversibly into desert, or about disastrous official policies that actually drove people out of farming, except to help distribute emergency assistance to the immediate victims. But volunteers can do something about bad agriculture. They can share America's knowledge of how to produce food -- something Americans do better than anyone else on earth -- with the farmers of the Sahel. We applaud the Peace Corps' call for 10,000 Americans with agricultural skills to contact the Peace Corps and to volunteer to serve in Africa. Americans are responding vigorously to that call. It is up to the Congress to fund the Agency adequately so that more than a mere handful of those 10,000 can actually serve.

THE PEACE CORPS MISSION IS AS VITAL AS EVER

John Kennedy in 1963 said that Peace Corps volunteers "will lay a seed which will bring a rich harvest for all in later days." Given the significant reduction in the size of the Peace Corps' since then, one would think that the job is nearly finished. Reality is otherwise. As Peace Corps funding has been slashed, many countries in the Third World have gone into a downward spiral, a negative developmental spiral, from which they have yet to recover.

President Reagan expressed this same attitude when he stated, in March of 1981, "Volunteers have fought, and often conquered, illiteracy, hunger, poverty and illness in nearly ninety countries. Their efforts, dedicated to world peace through international good will, have done much to replace fear and mistrust with mutual understanding. If Congress increases Peace Corps' funding and visibility, Americans may become more aware of the needs of the Third world, and feel better about foreign aid in general."

If you wonder whether the world needs more Peace Corps volunteers, consider these grim facts of Third World life:

- Most of the sickness and disease in the Third World is attributed to unsafe water and poor sanitary conditions. Volunteers have helped to dig wells and worked to improve urban and rural sanitary conditions.
- As of 1980, less than 10% of children in the Third World were being immunized against the six major childhood diseases. Five million were killed by these diseases. Medical volunteers have played an important role in several nations' immunization programs.
- Worldwide, 120 million children of school age have no school they can go to. Thousands of education volunteers have taught millions of Third World students over the past two decades.
- In Africa, per capita food production has fallen 20% in the last twenty years. Nations that once fed themselves must now use scarce foreign exchange earnings to import food. Agriculture volunteers have helped thousands of farmers increase their food production.

- Twenty-four African countries are suffering from a terrible drought which is causing hunger and famine. According to the FAO, in Mali alone, 100,000 children will starve to death this year. PCVs of all backgrounds have played an important role in dozens of disaster-relief efforts.

In every area where help is needed, volunteers have been able to improve things in their local areas. Unfortunately, the problems have grown while the number of volunteers has shrunk. It is a disgrace that there continue to be more requests for volunteers than there are volunteers to fill them. Indeed, more than half the requests for volunteers are never even passed on to the United States by the Peace Corps country directors because the directors know there is no budget to support so many requests. With additional funding, these requests could be met. The Peace Corps could also expand into other countries that have expressed an interest in beginning a Peace Corps program and re-enter other countries where volunteers are sorely needed.

THE UNITED STATES HAS AN IMPORTANT STAKE IN THIRD WORLD DEVELOPMENT

The economic and political ties that bind us to the Third World were neatly summed up by Secretary Shultz when he told the Southern Center for International Studies that "there will be no enduring economic prosperity for our country without economic growth in the Third World, and there will not be security and peace for our citizens without stability and peace in developing countries."

There are compelling humanitarian reasons for the United States to play a much greater role in bringing prosperity to the Third World. There are also some very practical foreign policy considerations.

By the year 2,000, over 5 billion people will be living in the developing countries. These people need food, housing, clothing, and jobs. If their needs are not met, we will all feel the shock waves of the Third World's economic and political instability.

This instability is a threat to peace and to economic growth in the United States. Keep in mind that one in five American jobs depends in some way on trade, and non-OPEC developing nations account for nearly 40% of the U.S. exports.

Peace Corps service is sometimes diffcult, sometimes exhilarating, and almost always worthwhile. As volunteers, we were privileged to become part of a culture radically different from our own. We came to understand how most of the people on this planet live, and we believe we made a difference in the lives of the people with whom we lived and worked.

We know there are many other Americans out there who also want an opportunity to serve in the Peace Corps. Last year, 16,723 people applied (a remarkable number, in view of the Peace Corps' extremely low visibility), 10,195 were considered, but only 2,977 were actually accepted. Although some were not suited for the life of a volunteer, many others had to be turned away for budgetary reasons. With a little more funding, the Peace Corps can find a place for these good candidates who may have a real contribution to make to the Third World.

Additional funding will also allow the Peace Corps to expand the applicant pool and place the many good candidates. More times than any of us cares to count, we have heard friends say "I didn't know Peace Corps still existed." Obviously, the Peace Corps had not gotten its message out. We hope that the President's message has changed that a bit.

U.S. FOREIGN POLICY BENEFITS FROM PEACE CORPS PROGRAMS

In deciding how 1986 foreign aid funds will be allocated, members of Congress should weigh the unique contribution the Peace Corps makes to U.S. foreign policy objectives.

Several government agencies provide humanitarian and technical assistance to the Third World, but only the Peace Corps sends its volunteers to live among the people, to work, eat and socialize as they do. Volunteers create a reservoir of good will toward the United States that cannot be duplicated by any other government agency.

Peace Corps also provides this country with a pool of former volunteers knowledgeable about countries which play a major role on the international stage. If the United States is to fashion an intelligent and effective foreign policy for Third World countries, we continue to need Americans who understand the cultures and speak the languages.

Finally, several members of your Committee recently sat on the Commission on Security and Economic Assistance, headed by Frank Carlucci. In its final report, the Commission expressed serious concern about the declining public support for foreign aid.

While many Americans are suspicious of, or outright opposed to, certain foreign aid programs, we do not think this negative attitude extends to the Peace Corps. On the contrary, we have found that Americans admire Peace Corps volunteers, and are proud of the humanitarian work the Peace Corps does in the name of the United States. A 1973 study of American attitudes toward global poverty and development revealed that 88% of those surveyed saw the Peace Corps as the single most effective organization helping Third World people (Paul A. Laudicinia, World Poverty and Development: A Survey of American Opinion, Washington, D.C.: Overseas Development Council, October 1973).

PEACE CORPS FUNDING IN PERSPECTIVE

Congress should appropriate $142 million for the Peace Corps in FY 1986 exclusive of any special agricultural effort in Africa. This would be another small step back to a 10,000 volunteer Peace Corps.

One hundred and forty million dollars is a small sum in a foreign aid budget that totals $16 billion. It is a modest amount when compared to the $10.7 billion requested for security assistance programs, and the $313 billion for defense programs. It is a drop in the bucket in a world that spends $660 billion a year on arms.

If the burden of poverty is not eased in the developing countries, the world is likely to pay a heavy price in lives and resources down the road. We can watch conditions deteriorate, or, through a revitalized Peace Corps, we can redouble our efforts to help Third World nations find solutions to the problems they face.

An expanded Peace Corps is an investment in stability and international good will, and it speaks to the very best in the American people.

Thank you.

TABLE A

PEACE CORPS BUDGET SINCE 1962

(Adjusted by GNP Deflator: 1972 = 100)

FISCAL YEAR	CURRENT DOLLARS (000s)	CONSTANT 1972 DOLLARS (000s)
1962	30,000	42,029
1963	59,000	81,301
1964	95,964	130,315
1965	104,100	138,685
1966	114,000	148,090
1967	110,000	138,469
1968	107,500	130,604
1969	102,000	118,357
1970	98,450	108,127
1971	90,000	94,123
1972	72,500	72,500
1973	81,000	77,549
1974	77,000	68,713
1975	77,687	63,022
1976	81,266	61,616
1977	80,000	56,830
1978	86,243	57,364
1979	99,179	60,675
1980	99,924	56,254
1981	105,531	54,121
1982	105,000	50,290
1983	109,000	50,618
1984	115,000	51,482
1985	128,600	55,456

TABLE B

FISCAL YEAR	BUDGET FOR STABLE NUMBER OF VOLUNTEERS (1) ($000s)	BUDGET FOR 10% INCREASE IN VOLUNTEERS (2) ($000s)	NUMBER OF VOLUNTEERS (ANNUAL 10% INCREASE)
1986	134,258	147,684	5,720
1987	153,887	169,276	6,292
1988	175,877	193,465	6,921
1989	200,430	220,473	7,613
1990	227,749	250,523	8,375
			9,212
			10,133

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(1) The budget for a stable number of volunteers is increased from the previous year's budget recommendation by the GNP deflator estimated for that fiscal year of the Office of Management and Budget. Those inflation estimates are as follows:

FY 1986	4.4%
FY 1987	4.2%
FY 1988	3.9%
FY 1989	3.6%
FY 1990	3.3%

(2) The annual 10% increase in the budget is a proxy for a 10% increase in the number of volunteers.

TABLE C

PEACE CORPS BUDGET SINCE 1962
Adjusted by GNP Deflator: 1972=100

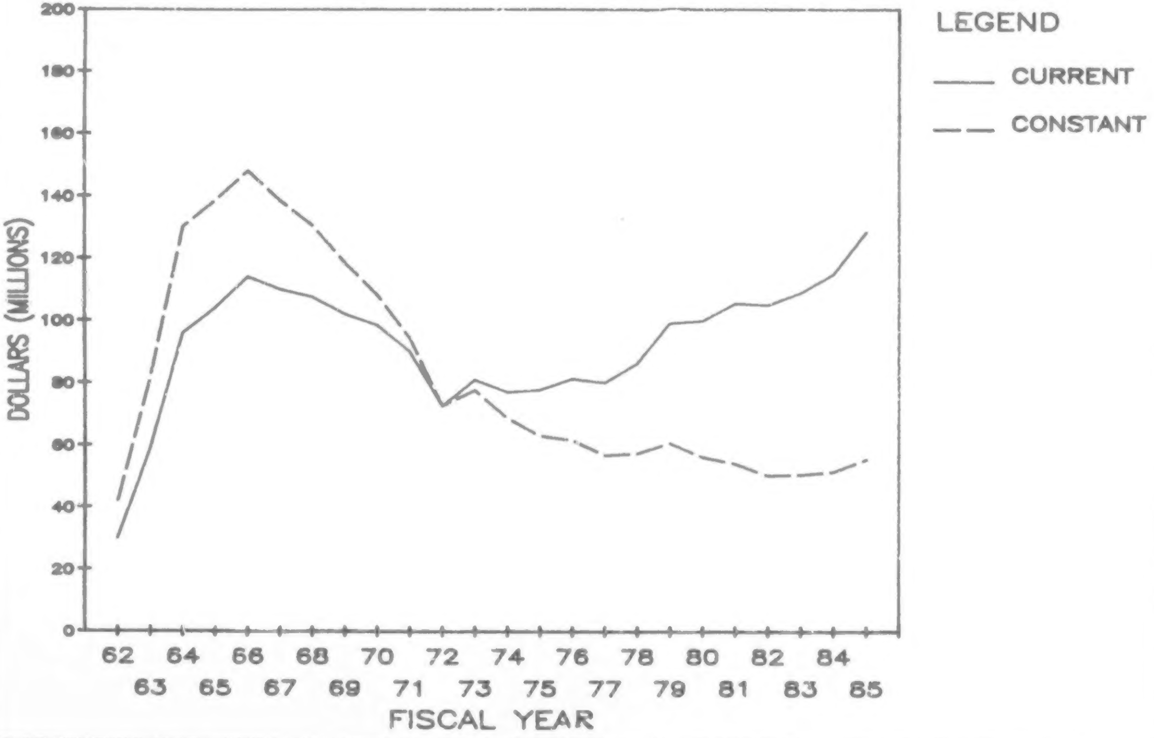
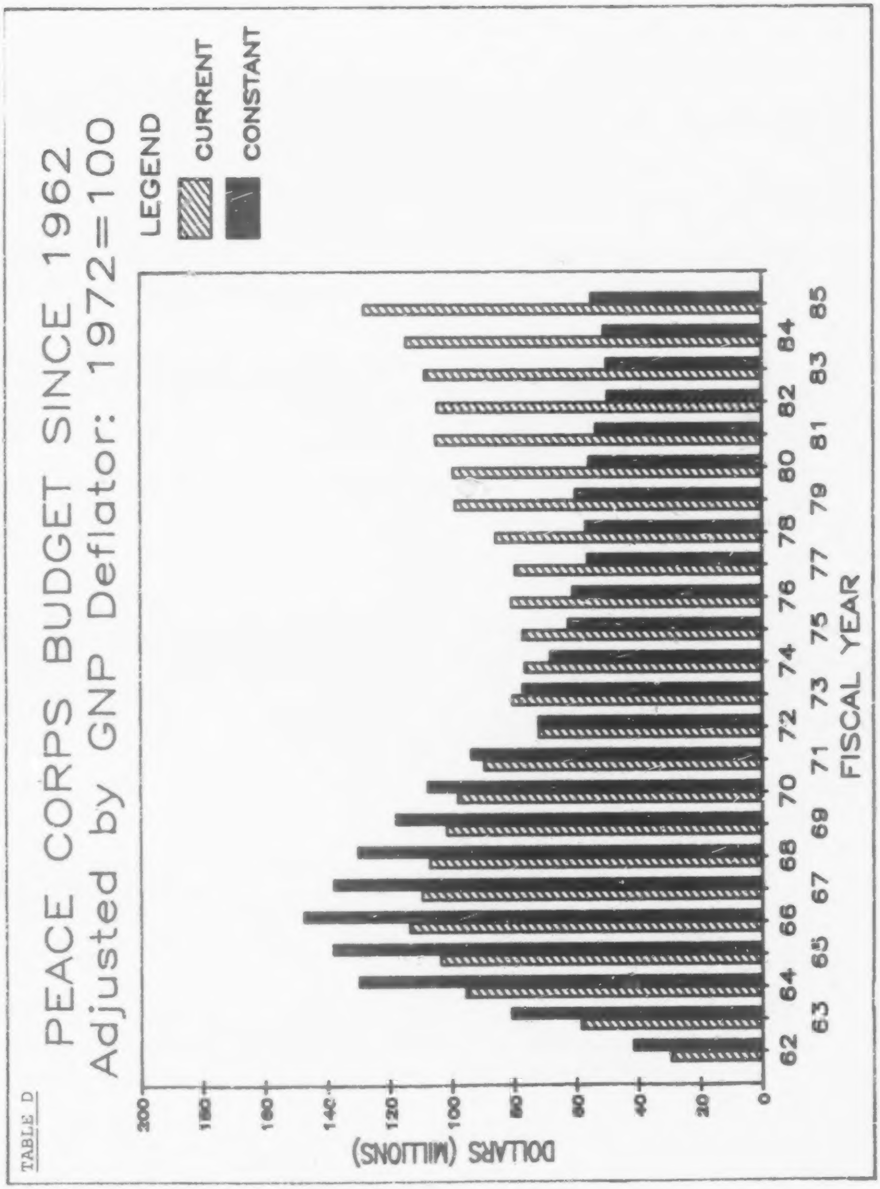


TABLE D



PEACE CORPS BUDGET SINCE 1962
Adjusted by GNP Deflator: 1972=100

CONTINUED SUPPORT OF PEACE CORPS INITIATIVES

Senator KASTEN. We thank you for your testimony today. As you know, this subcommittee has been very supportive of the Peace Corps and of Loret Ruppe. I agree with your characterization that she is doing an outstanding job.

She testified before us recently and said that she could meet her goals within the budget. I understand that she is under some constraints to make sure that she says that. I appreciate your suggestions. Honestly, I don't know what we are going to be able to do, but clearly the subcommittee will continue to work with Loret Ruppe and groups such as yours in support of the Peace Corps. We believe that they are doing an outstanding job, and we want to do everything we can to support them. We appreciate your testimony here today. Thank you very much.

Our next scheduled witness is Mr. Larson. Mr. Larson is from Eau Claire, WI, and I was particularly interested in Mr. Larson, but Mr. Larson is not in the room.

NATIONAL ASSOCIATION OF ARAB AMERICANS

TESTIMONY OF JOHN D. LAW, DIRECTOR OF POLICY RESEARCH, THE NATIONAL ASSOCIATION OF ARAB AMERICANS

MIDDLE EAST AID REQUEST

Senator KASTEN. Mr. John D. Law is the Director of Policy Research, the National Association of Arab Americans.

Mr. Law, welcome.

Mr. LAW. Thank you. I am glad to have this opportunity to present testimony on the Middle East portion of the administration's foreign aid request for fiscal year 1986. This is because we want to do whatever we can at NAAA to see that our tax dollars going to the Middle East are spent in the most effective way for the promotion of our national interests there.

The major goal of NAAA and I think that it would be safe to say that it is the major goal is to participate in working toward the establishment of a comprehensive and just peace in the Middle East. A peace which would, of course, be very much in the U.S. national interest.

U.S. SECURITY ASSISTANCE PROGRAM

The U.S. security assistance program, I am sure we all agree, is an important tool for achieving this goal. Somehow I have a feeling that we may not be in agreement on just how this tool could be used more effectively. So I will tell you how we at NAAA think that it should be done.

To begin with, we believe that when aid levels are determined for Arab countries not nearly enough weight is given to the positive role that some of them play in the peace process and the desirability of providing encouragement and support to this role.

Others of the Arab aid recipients are strategically placed and needy countries whose economic and political stability is essential to the success of any comprehensive peace settlement that is reached. But for practically all these friends of the United States, we are offering levels of aid that do not give them the kind of signals or the degree of economic and strategic support that are in the best interest of our national security. These countries should be getting more than the administration is requesting.

EGYPT

Egypt, the Arab country to which most of the aid is being given, is playing a key role in the peace process at the present time, working hard to keep alive the chances for peace negotiations among Jordan, the Palestinians, and Israel. It is also suffering economically from a number of forces beyond its control—a drop in emigrant remittances, lower oil revenues, and a reduction in income from the Suez Canal. Yet, it is being offered only a $100 million increase over the level approved for the current fiscal year at the same time that its Camp David partner, Israel, is being offered an increase of four times as much. On a per capita basis, it works out to four times as much.

JORDAN

Jordan is an important friend of the United States, a country with a ruler, King Hussein, who has made a strong pitch to revive the stalled Middle East peace process and has come far closer to meeting the guidelines of the September 1, 1982, Reagan initiatives, far closer than anything Prime Minister Peres has proposed.

However, Jordan, which is approximately the size of Israel, but has a per capita income of only one-fourth that of Israel's, will be receiving the proposed level of $117 million, less than one-half of 1 percent of the U.S. aid to Israel. Worse, Jordan is being offered $20 million less than it received 2 years ago. Is this the way to encourage King Hussein to keep plugging away at the policy that is surely in the U.S. interest as well as his own.

LEBANON

Lebanon is a country whose President, Amin Gemael, has never been more in need of assistance for his efforts to work out new power sharing arrangements that will permit the establishment of the unified, sovereign, and independent Lebanon that the administration says it is seeking.

The administration's proposed aid level for fiscal year 1986 is $20 million which is clearly inadequate to make any real progress toward this goal. In fact, the aid comes close to being little more than tokenism.

My time is too limited to allow me to mention even briefly the inadequacies of the administration's aid proposals for other Arab countries that are friends of the United States, such as Morocco, Tunisia, and Yemen, but these are treated in our written testimony.

WEST BANK AND GAZA DEVELOPMENT

I also cannot go into detail on the aid the administration is proposing for development on the West Bank and Gaza, aid which is not only very modest, but which the State Department has acknowledged is being diverted by the occupying power, Israel, for purposes other than those the United States has intended them to be used for.

AID TO ISRAEL

Aid to Israel in our view is the other side of the coin when it comes to the question of how U.S. aid to Middle East countries can be used more effectively. This is a country which, year after year, is given more aid funds, and it never seems to make any difference whether its actions are in the best interest of the United States or not.

It is a country that keeps building settlements on the West Bank, creating facts, as the Israelis call it, even though our Government keeps calling this activity an obstacle to peace. It is the country which is following up its 1982 invasion of Lebanon, an exercise in overkill, which even most Israelis now acknowledge was a mistake, with an equal degree of overkill in its withdrawal of troops from that part of the country which it still occupies nearly 3 years later.

In the process, the Israelis have managed to create a whole new set of enemies, the Shi'ites, who are the single largest religious group in all of Lebanon. There is now real danger that militant members of this group might carry out acts of revenge in Israel itself, an unprecedented event which could destabilize not only Israel and Lebanon, but undermine the whole U.S. peace process.

Despite everything, however, the U.S. aid that is being proposed for support to Israel once again set a new record. It will be given at a time when many Israeli and American economists are asserting that U.S. aid cannot be effectively used in Israel until its mismanaged economy is brought under control. Some of them even say that too much U.S. aid is part of the problem.

We believe that the proposed level of aid to Israel should be lowered substantially. We realize that there are those who argue that to tell Israel that it will have its aid from the United States reduced if it continues to act in contradiction to the U.S. national interests would be a form of so-called "pressure" which no sovereign nation can be expected to tolerate. At NAAA we do not accept this argument which we believe is based on a false premise.

I don't think that I can put it any better than George Ball, the former No. 2 man at the State Department, when he said, "It confuses the issue to use the word 'pressure' because it implies that the subsidy which is being given to Israel by the United States is something that Israel is absolutely entitled to. That we are somehow imposing on Israel's right."

The question is not whether we should use pressure on Israel by reducing aid, it is whether we are prepared as responsible citizens to have our money used to subdize activities that are against our national interests.

Senator **Kasten**. Mr. Law, we thank you. Let me just say that I share your view and your concern about Morocco. Morocco has been a leader in many different ways. You only have to look at a map to decide that it is also a pretty important country to all of us. This subcommittee has been supportive of efforts to aid Morocco, and we will continue to be.

We thank you for your testimony.

Mr. **Law**. Thank you.

[The prepared statement of Mr. Law follows:]

National Association of Arab Americans

PREPARED STATEMENT OF JOHN D. LAW
DIRECTOR OF POLICY RESEARCH
NATIONAL ASSOCIATION OF ARAB AMERICANS

The National Association of Arab Americans (NAAA) welcomes this opportunity to present testimony on the Middle East portion of the Administration's fiscal 1986 foreign aid request. As the principal lobbying organization representing the three million Americans of Arab descent, NAAA wants to do whatever it can not only to promote good relations between the United States and the Arab countries of the Middle East, but also to see that US tax dollars are spent in the most effective way for the protection and promotion of US national interests there.

Few would dispute that the aid program is one of the most effective tools that the US can use to protect and promote those interests. It is our view, however, that for a number of years this tool has not been used wisely. One administration after another has failed to use the aid program in a way that would encourage the countries of the Middle East to adopt policies that are in conformity with US foreign policy objectives. In fact, the aid programs have generally been structured and administered in such a manner -- however unwittingly -- as to encourage the opposite to happen.

More specifically, we believe that the huge sums that the US makes available to Israel year after year -- a quarter of all our foreign aid, with the most generous terms received by any country -- have served only to encourage Israel to keep on carrying out policies that it may believe to be in its own interest, but that are by no means in the interests of this country. At the same time, only very modest amounts of aid are being given to Arab nations whose policies conform with the American interest but who need the wherewithal to make those policies viable.

We realize that there are those who argue that the aid programs should not be used as weapons in support of American interests -- that to tell Israel that it will have its aid from the US reduced if it continues to act in contradiction with, or even defiance of, the US national interest, would be a form of "pressure" which no sovereign nation can be expected to tolerate.

This argument seems to convince a lot of people -- who might look at it differently if they understood that it is based on a false premise.

I don't think that I can put this any better than the Honorable George W. Ball, former number-two man at the Department of State, did recently, when he said:

> "It confuses the issue to use the word 'pressure,' because it implies that the subsidy which is being given to Israel by the US is something Israel is absolutely entitled to -- that we're somehow imposing on Israel's rights. The real question, though, is not whether we should use 'pressure' on Israel by reducing aid; it's whether we are prepared, as responsible citizens, to have our money used to subsidize activities that are against our national interests."

It would not be difficult for us to submit hundreds of pages of written testimony to show the extent to which, to use Mr. Ball's phrase, we have subsidized over the years Israeli activities that have been against our national interests -- but those years are just history now. Our main concern is, and should be, with what Israel is doing now -- at a time when the issue of foreign aid authorizations is being considered by your panel.

South Lebanon

Let us first look at the situation in south Lebanon, so that you may judge whether Israeli actions there are conforming with our national interests. At the time of this writing, Israel has just rounded off more than a month of what it calls its "iron fist policy" of reprisal against guerrilla attacks against Israeli soldiers. According to eyewitness accounts by United Nations peacekeeping officials, Red Cross workers, and independent Western journalists, Israeli troops have carried out what can be accurately described as a reign of terror among the civilian population of a large part of south Lebanon, during which scores of Lebanese have been killed. The Israelis have raided dozens of villages inhabited mainly by Shiite Muslims, have ordered people out into the streets, demolished houses, and rounded up and taken away to an unknown fate hundreds of villagers suspected of being guerrillas. During the searches by the soldiers, villagers are often killed -- sometimes by being shot, execution-style, in the head. Others who panic and run when the Israeli troops descend upon the village are killed by soldiers under order to shoot anyone who flees. Still others, caught on the roads with weapons in their cars, are tortured -- as was witnessed on March 3, 1985, by correspondents from the Washington Post and ABC Radio. These same witnesses also saw Israeli soldiers shoot randomly into a car containing a Lebanese family and kill an 11-year-old boy who was one of the passengers. The Israelis have run roughshod over UN peacekeeping troops who have tried to stop them from carrying out some of these excesses.

Following is a description by John Kifner, Lebanon correspondent of The New York Times, of some other kinds of Israeli intimidation carried out in the Shiite villages:

> In some villages, according to local residents, the Israeli troops have ripped up the Koran, the Moslem holy book, in the mosques. At times they have also taken the stores of various kinds of grain the villagers have laid up to carry them through the winter and mixed them together so they cannot be used, villagers said. The grain cannot be replaced in the isloated villages at ths time of year.
>
> "They went to the mosque, and first they cut the pages out of the Koran and then they put their boots on it," said Suheila Kiserwani, who fled from the village of Mansouri near Tyre with her three small children after an Israeli raid last week.
>
> "The Israelis went to each house and searched it," she said. "Where we had made supplies for the winter, they mixed everything together, the corn-flour and the bulghar and everything. They mixed out things so we don't have it anymore, because it's not like a city where you can go to the store. The people are hungry now."

In the meantime, the entire region still occupied by the Israelis has been put under dawn-to-dusk curfew and has been cut off from the rest of the country -- with Lebanese who attempt to return to their homes after visits to north Lebanon being driven back by shots fired over their heads at "border" crossings (a practice that has resulted in at least one civilian death). Israel has banned Western journalists based in Lebanon from entering the area, even though it has not managed to keep them all out. Even Israeli-based journalists must travel in the south with an Israeli Army escort officer and under guard, and must then subject their dispatches to military censorship. There is apparently a lot going on that the Israelis fear they must hide!

How Do the Israelis Justify All This?

The Israeli government attempts to justify its actions in south Lebanon on the grounds that its soldiers, in the process of making a gradual withdrawal, are being regularly ambushed and killed by guerrillas belonging to Shiite militias. But there are at least two things wrong with that argument.

Firstly, the Israelis who are under attack are virtually all soldiers -- whereas many, if not most, of the Shiites who are being killed, injured or otherwise being made to suffer from deprivation and terror through the Israeli practice of collective punishment are not guerrillas but innocent civilians. Secondly, the reason the Israeli soldiers come under attack in the first place is that they are occupying someone else's country, and being resisted by that country's inhabitants. When President Reagan compared Nicaraguan "contras" the other day to members of the French Resistance during World War II, he might well have also made a comparison between the French resistance fighters and the Shiites of south Lebanon.

The Israelis also argue that the attacks against their troops are unjustifiable because they are in the midst of a planned withdrawal from Lebanon. There are two things wrong with this argument, too. To begin with, if the Israelis really wanted to, they could evacuate all of their troops from Lebanon within 48 hours -- instead of spreading the withdrawal out over several months. Secondly, the three-stage "withdrawal plan" announced by the Israeli govenment does not, even if taken at face value, call for a full withdrawal of their troops anyway. This is because the third, final phase of the plan provides that security in the southernmost strip of Lebanon along the border with Israel will be put into the hands of an Israeli-sponsored militia. The Lebanese army will not be allowed into that area, and the Israelis will reserve for themselves the right to send in their own troops any time they think the militia force will need a helping hand -- which is sure to be very, very often. What kind of a withdrawal plan is this?

How is Israel's South Lebanon Policy Against the US Interest?

When Israel invaded Lebanon in June 1982, its announced purpose was to crush the Palestinians. But in the process of carrying out this self-appointed mission, it created a whole new set of enemies among the indigenous people of southern Lebanon -- most of them Shiite Muslims. The brutal "iron fist" policy of the past month has served only to intensify the hatred of the Shiite population towards Israel, and for the first time has inspired its leaders to threaten Israel with violence after the Israeli troops have withdrawn across the border.

For example, Daoud Daoud, an official of the Amal organization, generally regarded as "moderate," announced: "We can take the national resistance to where Israeli settlements are and destroy houses and inhabitants inside Israeli territory." Other Shiite leaders told the Washington Post that the crackdown was making them consider taking the war to Israel in order to "make their civilians suffer as they have made ours suffer."

Western diplomats in Beirut and military experts who have studied the growth of Shiite attacks in the last year point to these and other reactions as evidence that Israel's get-tough policy will not break the spirit of the Lebanese Shiites, as Israeli officials have been asserting will happen.

"There seems to be every indication to the contrary," a Western diplomat in Beirut told The New York Times. "I am definitely of the view, as I think we all are, that this is not going to break their spirit, but is going to create something much worse than the Israelis ever had to deal with before."

The upshot of all this is that Israel's policies in south Lebanon could lead in the weeks and months ahead to a sharp increase in the level of fighting in south Lebanon and to an unprecedented outbreak of violence in Israel itself. These events in turn would not only have a dangerously destabilizing effect in Lebanon -- north as well as south -- but could cause incalculable damage to the prospects for an overall peace in the region.

If this is not an Israeli policy that runs counter to the US interest -- and, ironically, even counter to Israel's own -- we don't know what is.

The US Peace Process

We are ready to concede that the present "national unity" government of Prime Minister Shimon Peres speaks about the peace process with a softer voice than its predecessors -- but we are not convinced that there is all that much difference in the substance of what is being said.

It is unlikely that this particular government, had it been in power on September 1, 1982, would have rejected the Reagan peace initiative within the first 24 hours, as the Begin government did. On the other hand, since even the Labor Party program for a settlement on the West Bank does not envisage returning more than about half of that territory, as its spokesmen have often declared, it is most likely that the Reagan initiative would eventually have been turned down -- but the process would have taken longer. In any case, Begin's rejection of the initiative has never been repealed by the Peres government. It still stands. Also still standing is the Begin government's decision to "freeze" setttlement activity in the West Bank, which President Reagan requested Israel to do in order to provide a better atmosphere for negotiations. As part of the deal for the formation of the present coalition, Peres agreed to give the go ahead this year for the construction of six more, which he has done. Although financial problems have acted as a constraint on getting the building of these Jewish settlements under way, existing settlements continue to bring in more people, and the overall settlement population is growing. This was confirmed in a recent report by Israel's Meron Benvenisti, a former deputy mayor of Jerusalem who is widely regarded in Israel as the leading expert on the demography of the West Bank. He reported the current number of settlers at about 42,500 -- a much higher total than had previously been believed.

Despite all this, Prime Minister Peres talks a great deal about his desire for negotiations to settle the future of the West Bank. It's hard to pick up a newspaper these days without finding another story about Mr. Peres's readiness to talk with the Arabs, and to talk "without any preconditions."

The latest note in this theme was sounded by the welcome Mr. Peres gave to Egyptian President Hosni Mubarak's new initiative to get peace talks going between Israel and a delegation composed of Jordanians and Palestinians. "By and large positive," he called it. It soon turned out, though, that Mr. Peres was very much opposed to the first step called for by the initiative: a get-together between a Jordan-Palestinian delegation and the United States.

In an interview with The Washington Post on March 1, Mr. Peres said that "the problem is not to make peace between Jordan and the United States," but between Jordan and Israel, and he added that leaving Israel out of such talks would amount to a new attempt by the Arab side to "convince Washington to commit the United States on behalf of Israel and twist Israel's arm...I said no to this."

Frankly, we find it outrageous that Prime Minister Peres finds something wrong with the idea that an Arab delegation should have talks with the United States. Isn't this the same prime minister who came to Washington with a delegation last fall to talk to the President and other Administration officials? Does he believe that only Israelis have the right to present their point of view to the United States on matters of great moment concerning the Middle East?

We also wonder what Mr. Peres is afraid of. If the rightness of Israel's cause is as unassailable as he apears to think, and if Israel's policies towards Lebanon, the West Bank and the issues of peace and justice in the

Middle East are as justified as he says they are, he should have no concern about letting the Arabs put across their own point of view. Is he afraid that if the Arabs and the Administration are left by themselves, the Administration might get a clearer perspective on the policies that Israel has been carrying out in the Middle East -- and come to the conclusion that they are not in the best interests of peace? Besides, isn't Mr. Peres, by objecting to such a meeting, setting a "pre-condition" for his talks with the Arabs?

Mr. Peres's objections to a meeting between a Jordan-Palestinian delegation and the US is outrageous, as we have said, but not really surprising -- since it conforms to the traditional Israeli practice of trying to discourage the establishment of good relations between the US and Arab countries. Like its predecessors, the current Israeli government and its supporters in Washington spend a good deal of time and energy trying to prevent the sale of US weapons to Arab countries that are anxious to defend themselves. To provide a defense capability for these friendly countries --some of whom are situated in areas that the Administration has called strategically "vital" to the United States -- is obviously in the interests of this country. We find it unconscionable that Israel should be working against these interests.

Aid to Israel

Without going into the background of Israel's provocative and unpeaceful actions of the past several years -- such as its brutal and unjustified invasion of Lebanon in 1982 and its annexation of the Golan Heights in contravention of US policy and of international law -- I have presented to you some of the current policies of the country that has asked us to give it nearly twice a much ($5 billion) in 1986 as it has received this year. The good news, from our point of view, is that the Administration's budget proposal is for less than the amount that Israel requested, and that the Administration has also -- and we commend it for this -- deferred a decision on an Israeli request for a supplemental appropriation for 1985 until it is satisfied that Israel is doing all it can to get a grip on its economy. But the bad news is that the Administration's budget proposal for fiscal 1986, despite being under the Israeli request, still adds up to a 15 percent increase in aid to Israel over what it received for fiscal 1985. If this request gains approval, we believe that it will be taken by Israel as an American show of support for the policies it has been following.

We know that upping the aid that is given to Israel is not exactly an unprecedented event -- and we have, in fact, been arguing against such increases in front of this and other subcommittees year after year. We think, though, that this year there are at least two additional reasons why you ought to ponder our arguments very, very carefully.

In the first place, the Israeli aid request comes at a time when we ourselves, in this country, are going through an agonizing period of budget-cutting. Many Americans, and not only Arab-Americans, are resentful of the fact that at a time when they are being asked to make sacrifices -- through proposals involving deep cuts in aid to college students and farmers, an end to the Job Corps program and Small Business Administration, and reductions in the benefits for retired persons -- the government is not insisting that Israel should also make sacrifices when it comes to the funding that it expects to get from US taxpayers.

A second point that we think you should ponder this year is the fact that the increased funds which we are planning to give to Israel are going to a country which has acknowledged that it has grossly mismanaged its economy during the past few years, allowing inflation to get close to quadruple figures and its foreign exchange reserves to drop to all-time lows. This acknowledgement by Israel's leaders is also an indirect admission that they have mismanaged the use of US economic aid funds -- since such funds go into Israel's treasury without being earmarked for specific projects. These funds have allowed Israel the opportunity to maintain a welfare-oriented economy which provides subsidies and inflation-protection for its citizens that are unmatched by few if any other countries in the world.

After the "national unity" government took office, it assured US officials that it would impose an "austerity" program that would get the Israeli economy under control. But in the opinion of many economists in both Israel and the United States, the program has not worked up to now. The current phase of the program, referred to usually as the "package deal," is not getting at the roots of Israel's problem any more than did the three-months freeze on prices and wages which preceded it. Huge government subsidies for most basic commodities, while reduced, remain intact -- even though the consensus is that they are a principal cause of the economic crisis. In addition, Israel's traditional indexation of wages and interest rates to inflation is being allowed to continue -- thus providing a built-in incentive for inflation to grow.

The package deal also totally ignores the contribution of Israel's Central Bank to the crisis. By law, the Central Bank must print enough shekels to cover the country's growing budget deficit, regardless of whether or not the resulting growth in the money supply is consistent with the increase in national output. This inflation generating practice is continuing unabated.

Another missing item in the new package is a full scale devaluation of the shekel to market rates. The shekel is so overvalued that few people are interested in buying israeli exports, helping to cause Israeli hard currency reserves to drop for the second time in a year below the "red-line" -- the mark designated for three months worth of normal imports. This sharp drop in reserves occurred despite the fact that the United States broke precedent last October and sent Israel its entire $1.2 billion of US economic aid in one payment -- instead of spreading it out over the year.

This band-aid approach is expected to have little impact on efforts to reduce Israel's growing budget deficit. The State Department and Israel's own economists last year had specifically recommended that Israel cut between $2 and $3 billion from its budget for its fiscal year 1984-1985 which ends March 31 -- but Israel has not come even close. According to a new disclosure from the Israeli Ministry of Finance, only $200 million has actually been cut from government spending. And considering that the new half-hearted package deal went into effect on February 4, just two months before the expiration of the Israeli fiscal year, the $200 million figure can hardly be expected to grow much.

In our view, this mismanagement of an economy which is kept alive by US funds, along with existence of an Israeli foreign policy that runs counter to US interests, should be enough to warrant a very sharp reduction in US aid to Israel, and even its elimination. Should the Administration and Congress not see fit to go this far, however, it seems to us that the inadequacy of the current Israeli "austerity" program has clearly demonstrated the need for supervision of Israeli reform measures by an outside expert party-- to oblige Israeli leaders to take the hard road instead of succumbing to the dictates of political popularity. So at the very least, if Israel wants additional aid for the coming year, why not tell it to go to the International Monetary Fund?

Directing Israel to the IMF would circumvent many of the problems. Although the Fund was originally established to help countries with short-term balance of payments problems, it has in recent years become increasingly involved in helping countries overcome structural problems in their economies. This is done by conditioning IMF loans on the implementation of sound economic policies.

Turkey, India, Mexico and Brazil have all received IMF assistance and have made remarkable progress in overhauling their troubled economies. Not only have IMF credits resulted in the development of appropriate austerity measures there, but they have also encouraged commercial banks to extend new loans. The IMF "Seal of Approval" that comes with its loans reestablishes the credit-worthingness of borrowers, often enabling them to obtain new commercial bank loans far in excess of the original IMF credit.

The key ingredient in the success of IMF programs is the conditionality feature. IMF experts closely monitor borrowing countries' economic policies and, unlike Congress, are willing to cut off IMF credits when the policies fall victim to political pressures. IMF experts could justifiably insist that Israeli politicians enact reforms that would include eliminating the subsidy and indexation programs, cancelling the costly Lavi project, devaluing the shekel to market rates, and ending the requirement that the Central Bank print enough shekels to cover the budget deficit.

Israel is already experienced in working with the IMF, having borrowed from the Fund three times in the mid-seventies. Israel's current quota of $466 million (its credit line at the IMF), when combined with new commerical bank loans that are sure to follow an IMF-approved austerity program, will be more than sufficient. Working under the constraints of IMF conditionality, Israel may learn some of the lessons it needs for the proper management of US funds. That could at least be a start. At the same time, the money saved by the US could be used to help lower the US budget deficit, instead of encouraging Israel to ignore its own.

Now let us look at aid proposals for some of the Arab countries.

Aid to Egypt

The Administration's request for $2.3 billion in aid represents a meager $100 million increase over the level approved for the current fiscal year, even though Egypt has gone out of its way to promote the Middle East peace process and other US foreign policy objectives. During the last few weeks, Egypt has launched an intense diplomatic offensive to keep alive the chance for peace negotiations among Jordan, Israel and the Palestinians. Egyptian President Hosni Mubarak has lent his support to the idea of direct negotiations between a joint Palestinian-Jordanian delegation and Israel on the future of the West Bank, dispatching his key political adivsor, Osama Al-Baz, to Jerusalem for talks with Prime Minister Peres.

Egypt has also carried out a number of cooperative ventures with the United States. In August 1983, the US and Egypt conducted the largest joint military exercises ever held in the Middle East. Some 5,000 American troops participated in the ventures. Egypt has also granted the US landing privileges at its naval and air facilities under certain circumstances -- for instance, the United States took advantage of the privileges during special military exercises with Oman. Egypt also provided support for US transhipment of ammunition to Lebanon when the American marines were there, and has cooperated with the US in taking action to deal with threats to Sudan, its southern neighbor.

The case for more aid to Egypt also holds up on economic grounds. Its 47 million people, unfortunately, have one of the lowest standards of living in the Arab world, with a per capita GNP of $690. Israel's four million inhabitants, by contrast, have a per capita GNP of $5,900 -- almost 10 times the Egyptian level. More than half of Egypt's population is illiterate, and the average life expectancy is just 50 years. In Israel, however, 88 percent of the population is literate and the average life expectancy is 73 years, the same as it is in the United States. Despite the glaring difference in the level of economic development between the two countries, the United States is currently sending Egypt $47 in per capita aid, while loading up an affluent Israel with $650 for each man, woman and child.

NAAA would like to see Congress match Egypt's request for $3.15 billion in military and economic aid in 1986. This would raise Egypt's per capital aid from the US by $20 -- a small but psychologically important reward for steadfast support of US foreign policy objectives. The aid increase would also help Egypt to catch up on its interest payments on military loans from the United States. As you may know, Egypt is currently experiencing some economic difficulties that are largely beyond its control. The declining worldwide price of oil has resulted in a sharp drop in Egyptian workers' remittances from OPEC countries. Egypt's own oil revenues have fallen as a result of the price decline. Revenues from the Suez Canal, another major source of hard currency, are also depressed.

Aid to Jordan

Perhaps no other country in the Middle East has done as much as Jordan in the past year to promote US peace efforts in the region. King Hussein, despite strong pressures from some Arab hardliners, has made a strong personal pitch to revive the stalled Middle East peace process.

On February 11, Hussein made a historic announcement that he and PLO chairman Yasser Arafat are ready to engage in negotiations with Israel on the future of the West Bank, based on the principle of peace in exchange for the return of occupied territory. The move was characterized by a senior Administration official as a "milestone," and by a State Department official as the most promising development to emerge from the Middle East in years.

The move was consistent with the King's efforts of earlier years. Despite Israel's abrupt rejection of President Reagan's September 1, 1982 peace initiative, Hussein supported the initiative and worked hard to get other Arab countries to support it, too. At the Palestinian National Council meeting in Amman in November 1984, he called on the PLO to join him in seeking peace with Israel. In his address before the PLO body, he reaffirmed Jordan's commitment to peace negotiations on the basis of UN Resolution 242, a resolution that he has now supported for more than 18 years -- longer than Israel has.

Jordan is an important friend of the United States, politically and strategically, and its population is not much smaller than Israel's. Yet it will receive, at the proposed figure of $177 million, less than one half of one percent of the US aid that Israel wll get. Militarily, it is still seeking to get the equipment and weapons that will allow it to defend itself. On the economic side, Jordan is struggling, with a GNP per capita of only $1,156 -- less than one fifth of Israel's. The world recession -- including the one in the Gulf, where large numbers of emigrant workers, including Jordanians, have lost their jobs -- has taken its toll on the economy. Growth rates have declined in recent years, and the outlook is not good, as population growth rates exceed the number of jobs that are created and as the government has to cut back on its development.

We at NAAA feel very strongly that Administration's proposed economic support of only $20 million to Jordan should be boosted substantially.

Aid to Lebanon

NAAA believes that the Administration's proposed aid levels for fiscal 1986 of $10 million in economic support funds and $10 million in foreign military sales for Lebanon are wholly inadequate.

Never has the regime of President Amin Gemayel been more in need of assistance in it efforts to work out new power-sharing arrangements that will permit the establishment of the unified, sovereign and independent Lebanon that the Administration remains committed to seek.

Essential to President Gemayel's effort to attain stability is that Lebanon's armed forces must be given the opportunity to become strong enough to take control of the country and defend it. But aside from the fact that the sum being proposed for US military aid is very modest in size, the aid is scheduled to be provided in the form of a loan at market rates, instead of at the more concessional rates of interest available. In view of Lebanon's capital-short economy, we believe that the military aid should be provided as grants, as is being done for Israel -- which, for the record, is getting 180 times as much. At the very least, the military aid for Lebanon -- if it is going to take the form of a loan -- should be offered at concessional rates.

Lebanon's debt burden to the United States for military assistance may well reach $200 million by 1995, including interest and principal. NAAA would support congressional efforts to forgive at least a portion of Lebanon's military debt, or to reschedule the payments.

We are equally dissatisfied with the proposal to provide a token $10 million in economic assistance for Lebanon. Both the negligible amount and the terms of this aid are disproportionate to the very real need that exists in the country today. Lebanon has never recovered from the devastation of the civil war and of the massive Israeli invasion of Lebanon in 1982. Today, as Israel carries out its so-called "three-phase withdrawal plan," more destruction is taking place and more lives are being lost. The level of aid should be increased and offered as a grant. True, $73 million remain in the Lebanon "pipeline" -- but these funds remain obligated for specific AID projects or otherwise for gradual drawing down by private voluntary organizations such as UNICEF and the YMCA, which continue to carry out their work despite the harsh conditions of occupation. This pipeline support does not, therefore, provide the type of blanket economic support needed to shore up Lebanon's foundering economy.

In addition, NAAA would urge Congress to support Lebanese requests for assistance in procuring agricultural credits to replenish necessary supplies of food staples such as wheat and other cereals, soya and corn oils.

Finally, NAAA would strongly oppose any efforts to reprogram funds already authorized for Lebanon to any other country or project. Forty million dollars were reprogrammed last year for use in Grenada, and we support Assistant Secretary of State Richard Murphy's expressed hope that this would not happen again.

The West Bank and Gaza

We note the Administration's request for significantly increased aid under the Regional Cooperation section, which includes the West Bank and Gaza. The proposed funding increase for specific use in the occupied territories, however, is only $1 million more than last year and takes on token proportions when compared to the huge amounts granted to the occupying government of Israel.

We applaud the Administration's emphasis on providing economic assistance directly through Private Voluntary Organizations (PVOs) and urge that aid to Palestinian PVOs be increased. American assistance to hard-working Palestinian entrepreneurs will become increasingly important due to the effects of austerity measures in the Israeli budget and the continuing harsh conditions in which Palestinians under occupation are living.

While Secretary of State George P. Shultz has emphasized his desire to seek improvements in the lives of the residents of the occupied territories, achievements to-date remain inadequate. This is largely due to the policies of the Israeli government, which continues its efforts to undermine the growth and productivity of the Palestinian community.

That this is happening was acknowledged by the State Department itself on April 10, 1984, when it announced that although US assistance to the West Bank and Gaza was intended to be "oriented towards activities that will contribute to economic development," it wanted to express its "concern that Israel has not been forthcoming in allowing such activities to go forward." It added that "Israel should be more flexible in permitting Palestinians to undertake economic activity, at their own initiative, to develop local industry."

Meron Benvenisti, the former deputy mayor of Jerusalem, wrote in a report last year that between 1977 and 1984 only 23.1 percent of the industrial expenditures and only 35.6 percent of the agricultural expenditures endorsed by the US Agency for International Development had been approved by Israel. US-funded projects that did not give the Palestinians a stake -- such as public works projects that Israel would otherwise have to pay for itself -- were given ready approval. Thus Israel was diverting US aid from its intended objectives.

This is just one recent aspect of an 18-year-old policy by Israel of stifling Palestinian economic initiatives. Palestinians are denied permission to dig new irrigation wells; discouraged in their attempts to form cooperatives; limited in their planting of trees and vegetables; constrained from selling their produce in Israel; turned down -- or made to wait indefinitely -- when applying for licenses to start up a business project or construct a building; and deprived of adequate credit and money market facilities.

AID and PVOs continue to enumerate cases in which the Israeli government delays or denies clearance "to proceed with individual subprojects, particularly those of a development nature."

A September 1984 report evaluating the AID-funded PVO Development Assistance

Program in the West Bank and Gaza (1975-1984) by the International Science and Technology Institute, Inc., made several recommendations on the aid program. The Institute endorsed increases in the size of the assistance program, for the following reasons:

(a) the demand and the need exists, especially during the economic downturn when Arab sources of funding are becoming less available;

(b) the PVO organizations are able and interested in handling expanded programs; and

(c) local Palestinian capability for project management is strong, although more technical assistance in this area should be included in future projects.

The Institute recommended special attention for increased, carefully implemented programs in Gaza, where stricter controls by the Israeli authorities make creative programming and project approval more difficult. Currently, one of the most successfully operated PVOs in Gaza is the Sun Center School for Mentally Handicapped Children, run by Dr. Hatem Abu Ghazaleh, which is a model for Palestinian PVOs.

The small aid program funding economic and social development in the West Bank and Gaza has perhaps the highest impact of any American aid program anywhere in the world. AID has praised projects undertaken by PVOs as being "well designed and implemented."

AID programs are designed to foster a greater sense of self reliance and economic independence among recipients. The Administration's increasing focus on aid to the occupied territories will begin to provide the essential tools for economic development and self-determination of the local population.

Aid to Morocco

Although NAAA welcomes the Administration's continued support for Morocco, we do not believe its FY 86 $138 million request is sufficient to promote American interests there. For one thing, the request represents a $12 million reduction from the FY 1984 level. For another, it does not take into account Morocco's extenuating economic circumstances. The North African country is currently experiencing some particularly hard times. A long, severe drought and plummeting world prices for phosphate, Morocco's principal export, has sent the economy into a tailspin. The standard of living in Morocco is now declining. When one considers that almost half of the 22 million population lives below the poverty line, this is particularly disturbing.

King Hassan has long been a reliable American ally -- a strong supporter of the Middle East peace process in general and the Reagan peace initiative in particular. Morocco paved the way for Egypt's return to the Islamic Conference and permits the Voice of America to operate a transmitter in Tangier. On military matters, Morocco is cooperative with the United States. Our country has access to Moroccan air fields and ports, has conducted joint military exercises with Morocco, and has a joint military commission to look into further cooperative ventures.

NAAA believes that a boost in aid to Morocco is necessary to assist the country in its efforts to cope with its economic difficulties and to demonstrate American appreciation for its support of US objectives.

Aid to Tunisia

The Administration's FY 86 $96 million request for Tunisia is insufficient for the promotion of US objectives there. Even though Tunisia's needs have increased over the last couple of years, the Administration's request represents a 25 percent reduction from the level approved by Congress in FY 84. Tunisia's seven million people have a per capita income that averages just $1,300. Nearly one in three Tunisian workers is unemployed.

And according to Western economic analysts, the worst is yet to come for Tunisia. Europe, which in years past has served as a safety valve for Tunisia's unemployed, is no longer willing to continue that role. With Portugal's and Spain's impending entry into the European Economic Community, Tunisia at best can hope only to maintain its level of export to Europe. Furthermore, Tunisia by 1986-1987 is expected to become a net oil importer, further draining its already scarce hard currency reserves.

Tunisia has been a friend of the United States since it gained independence in 1956, often using its influence in international bodies to moderate the views of others. During the hostage crisis for example, Tunisia cast the deciding vote in the UN Security Council for sanctions against Iran. In the Arab League, Tunisia has been a consistent force of moderation. On military matters, Tunisia has been receptive to US initiatives. The Sixth Fleet enjoys regular access to Tunisian ports. The United States and Tunisia have established a joint military commission, and Tunisian officials have shown a desire for heightened military cooperation.

More US assistance to Tunisia would enhance its economic stability and defense capabilities, enabling it to continue to support US foreign policy objectives.

Aid to Sudan

We support the Administration's request for $253 million in aid to Sudan during the 1986 fiscal year.

Some of the enormous economic problems that Sudan is now facing are not of its own making. Faced with a severe drought of its own, Sudan has taken in more than 1.5 million refugees fleeing drought, famine and war in neighboring countries. These have helped push the national debt close to $9 billion, far more than the country's GNP. Debt service now outstrips Sudan's foreign exchange earnings.

Although the US. along with the IMF, has suspended economic aid to Khartoum until a plan can be worked out for debt rescheduling, US food aid continues. We strongly urge that US food shipments, which are both for the Sudanese and the refugees, be increased well beyond the $39 million worth allocated so far.

Aid to Oman

NAAA commends the Administration for requesting that aid to Oman be increased in FY 86 to $78 million from its current level of $60 million. Oman's geographic location and willingness to cooperate with the United States make it deserving of this increase. Over half of the West's oil imports pass through the Strait of Hormuz via shipping channels that are inside Omani waters. Oman has also granted the United States limited peacetime and extensive emergency access to its military facilities. In fact, Oman is the only Gulf country that is openly committed to an American military presence in the region.

STATEMENT OF DR. THOMAS R. STAUFFER

AID TO ISREAL

Senator KASTEN. Our next witness will be Dr. T.R. Stauffer from Belmont, MA.

Dr. STAUFFER. Thank you, Senator.

With your permission, I would like to simply summarize my testimony, hit the highlights, and deliver an amended version of the testimony for the record.

Senator KASTEN. Your entire statement will be included in the record.

Dr. STAUFFER. Thank you, sir.

The issue that I am addressing is the level of our aid to Israel, given that it is the largest single part of our foreign aid budget, and in particular would address the question of Israel's need for aid in the historical context, and also with regard to its future need for aid.

The first basic point that I would like to make is that Israel's need for aid is absolutely nothing new. Its deficits have been chronic for some 35 years now. All of the packages that we hear about are also nothing new. Every few years, it is the same set of proposals dealing with the same fundamental problems.

What I would like to address then is why is Israel so chronically dependent upon aid? Why is it an international welfare case?

I think that it is very useful to recognize the analogy between foreign aid and oil revenues because this gives us insights both into the oil states and also into a state like Israel or Jordan, which depends upon aid, because both aid money and oil money are easy money, they are unearned, they are unrequited transfers. They are, in all cases now that one has seen, used primarily to finance consumption at these high levels, and they become addictive, like a drug, if one wants to go to a homely analogy.

This is true for the OPEC states like Venezuela, Nigeria, or Mexico. It is true for non-OPEC oil exporters like Norway, which is hooked on oil, and it is true for the major, high intensity aid recipients like Israel, and to a lesser extent Jordan and Egypt.

The mechanism here is very simple, and seems to be pervasive. Aid or oil money goes up, this increases spending. The spending increases popular expectations for government handouts and welfare programs, and in return then the governments increase their demand for oil revenues or aid. This is a vicious circle that we have observed now throughout.

PRIORITIES OF U.S. AID PROGRAMS

The problem is old, but the circumstances today, I would argue, are new in that Israel's demands are so rising, more money this year and more money next year, at the same time that the demands upon U.S. resources are increasing. We are in a position today where we are being asked to increase the aid to Israel at a time when we are cutting back for American programs. More for Israel, and less for Americans, which means, to me at least, that one has to look at the priorities more carefully.

The explanation for Israel's need for aid is really very, very simple. It is simply over-consumption. Like all of us, they want to live better. However, they want to live better than they can afford, and turn to us for the difference.

OVERCONSUMPTION PATTERNS IN ISRAEL

There is very strong, very indicative evidence of this pattern of overconsumption in Israel. Let me just run through those blocks of evidence.

First of all, its GDP is much higher than any other aid recipient, this is indicative of the extent to which an austerity program would be feasible without undue hardship. They are unique in this level of aid, anywhere from 3 to 10 times the income of other recipients.

Second, Israel's real income is high even compared to our own or Europe's, once more indicative of the fact that austerity is entirely possible. They are among the 10 to 15 wealthiest countries per capita in the world, and yet at the same time with the highest aid. With that kind of income, one can absorb cuts.

Third, getting more to this fundamental problem——

Senator KASTEN. Did you say, "one can," or "one can't?"

Dr. STAUFFER. They can absorb cuts. There is a lot of cushion there in this consumption pattern.

Third, and this is getting to why this problem persists in the case of Israel, the domestic savings rate has been falling rapidly, more and more consumption and less and less savings relatively. The net capital formation has been declining, and net domestic saving is actually negative, virtually unheard of.

Senator KASTEN. But at an inflation rate of——

Dr. STAUFFER. No; this is corrected for inflation.

Senator KASTEN. This is corrected for inflation.

Dr. STAUFFER. What I am talking about is in real terms, and this is the key. If you look at their absolute numbers, with this approaching four-digit inflation rate, it is pretty hard to figure what is going on. This is in real terms, using the Central Bank's own deflators.

TAX RATES

Fourth, real tax rates are not high. The effective tax rate is much less than the ostensible figure of 50 percent. It lies between 20 and 25 percent, or less than one-half of the nominal figure, according to the Central Bank reports. Their fiscal structure is quite different from ours, and if you make the adjustments that the Central Bank does or the ministry of finance, you will find that the effective tax rate is really quite low. They don't really tax themselves very high.

MILITARY COSTS

Fifth, the argument about military costs is probably not really substantiable. First of all, their figures for the military expenditures abroad are much higher than the State Department's figures on what they import indicating that something is peculiar. Second, their military exports are now increasingly offsetting their military purchases, so that their net foreign exchange cost for weapons is probably surprisingly small today.

DEBT SERVICE BURDEN

Sixth, their debt service burden is not particularly onerous. The presentations made by the Ministry of Finance to the State Department were simply wrong in this regard. They didn't quite do the arithmetic correctly. If you measure their debt service burden the way one measures it for other countries in the world, using the techniques of the World Bank, for example, you find that their debt service burden is about 20 percent of foreign exchange receipts, which is not at all high by the standards of the world today.

By way of summary, I would point that Israel's need is based upon the fact that it wants to spend more than it can afford, and we are asked now to pay for this difference. They have considerable latitude for cutting consumption, and imposing a domestic austerity program, which they have never been willing to do thus far.

PROPOSALS FOR ISRAELI AID PROGRAM

What I would like to propose to the committee is two things: First, that one should really be looking at a cut in aid to Israel rather than an increase. This question of more for them means less for American programs. A collateral benefit to this is that one might be able to use cutting aid to Israel as grounds to cutting aid to Egypt as well, so we get more bank for the buck in terms of savings. Second, one should consider eliminating the abuses in the present aid program to Israel, particularly with regard to untied aid. Nominally our aid is tied, but in fact it is not. An analysis which is summarized in my testimony shows how serious this loophole is. It is now equivalent to exporting between 100,000 to 150,000 American jobs per year simply through this legal loophole which they enjoy at whatever aid level we give them.

I would suggest, therefore, first reviewing and cutting their aid, and second, tightening up the terms so that it doesn't cost American jobs to the extent that it now does.

Thank you.

Senator KASTEN. Dr. Stauffer, we appreciate your testimony. There may be questions that we submit back to you in writing, and hopefully you could reply to us in writing. You have brought up a number of important points. We very much appreciate your testimony.

Dr. STAUFFER. Thank you.

[The prepared statement of Dr. Stauffer follows:]

PREPARED STATEMENT OF DR. THOMAS R. STAUFFER

ECONOMIC ASSESSMENT OF ISRAEL'S CHRONIC DEPENDENCE UPON FOREIGN AID

INTRODUCTION and SUMMARY

The dependence of Israel upon economic aid, almost all of which comes from the U.S., is unique, both in the high level of that aid and its persistence.

The only analogue to such a degree of dependence upon unearned resources is found in the OPEC's states' parallel dependence upon oil, where oil revenues are "unearned" in the sense that they represent the liquidation of geological capital, i.e. the consumption of a "wasting asset".

Israel's persistent and growing dependence reflects the chronic inability of its governments to live within their means -- consumption and expenditure have risen steadily since independence, always outpacing earned income.

This consumption has been financed by growing demands for aid or, most recently, by a daring -- if not dangerous -- accumulation of short-term foreign debt via the commercial banking system.

The indicators of chronic over-consumption are clear:

- high real per capita "income" -- among the dozen highest levels in the world (excluding the oil-exporting "mini-states").
- low and declining rates of net national saving -- net investment is now much less than new aid, and real national saving is actually negative.
- low effective tax rates -- thanks to elaborate welfare and subsidy programs -- so that the the actual tax burden is in fact quite modest.
- steadily rising levels of consumption (post 1978) -- funded by short-term foreign borrowing and ever-increasing US aid, both direct and off-budget.

The malaise is structural and persistent, and the pattern of perpetual deficits predates the country's independence.

Each successive government since the 1950's has promised essentially the same "package" of solutions -- export promotion, ostensible austerity measures, etc. -- but none has exercised the necessary discipline to curb spending and to balance outlays with earned income.

BACKGROUND

The Israeli economy has suffered deficits since independence in 1948, and the only new element in that pattern is the fact that those deficits have grown steadily over the years.

Originally, its excess of spending over earned income was financed by contributions from the Diaspora, the world Jewish community, and then later was supplemented by reparations payments from Germany.

More recently, however, since the early 1970's, the growing burden has been shifted to the US, largely in the form of direct and indirect government appropriations but also in the form of tax-expenditures or indirect, off-budget financial support measures.

The malaise is not new, but it has become more pronounced, as the size of the deficits to be covered by US assistance has risen steadily.

Higher levels of subsidies and state welfare have created new, ratcheted baseline expectations, which then are the jumping off point for demands for still greater benefits or welfare outlays.

Total consumption has risen steadily in Israel, while aid and borrowings have increased apace, absent any consistent, political will to curb spending and to introduce an operational austerity plan.

While military spending is bruited as the cause of this long-standing economic disability, the available data show that net imports of military equipment have leveled off, or even declined -- thanks to profitable export sales -- and that the growing deficits since the mid-1970's are directly attributable to uncontrolled spending.

The analogy with oil-exporters is particularly instructive; in both cases the unearned resources -- either oil or its analogue "aid" -- are alternatives to taxation, to financial discipline, and to any real urgency for structural reform or productive investment.

In the case of Israel (or Jordan, to a somewhat lesser extent), this aid and debt has supported rising consumption at the expense of real savings. Unrestrained spending reenforced popular expectations for still more welfare programs and for still higher, aid-financed subsidies, parallelling the experience of the more populous oil-exporters such as Mexico, Nigeria, and Venezuela.

There are several key indicators of the importance of over-consumption in explaining Israel's steadily increasing demands for additional economic aid:

1. The country is indeed uniquely wealthy compared with any other aid recipient.

Unlike most countries which receive development or economic aid, Israel's per capita GDP is high -- anywhere from three to 20-times higher than the other countries.

Not only does it receive the highest per capita aid of any such country, it also has by far the highest per capita GDP. Only Jordan comes close, and there the gap is about three-to-one.

Given its relatively high GDP, the sacrifices needed to "pay its own way" would still permit a standard of living much higher than other aid recipients, and the real margin for tolerable adjustment is substantial.

2. Israel in fact enjoys levels of per capita expenditure which rank it among the highest in the world.

It is estimated that Israel's effective per capita "income", in real terms, is almost three-quarters as high as that of the United States; it is significantly higher than that of Ireland or Italy, and it is close to that of Germany or Japan.

Given the unusual structure of the Israeli economy and the difficulties with the exchange rate, it is not possible to measure Israel's real "income" by converting the reported GDP at the official exchange rate.

A study by the EEC, occasioned by Israel's interest in closer association, together with the Bank of Israel's more applicable measure of income, show that Israel's effective income in 1982 was over $9000/capita. This is equivalent to about 70% of the figure for the United States.

Thus, economic retrenchment, based upon lower aid, does not imply condemnation to poverty by international standards, given that the expenditure levels from which adjustment must be made are so high.

3. For the last 10 years or so, spending has increased at the expense of real saving -- "eating the seed corn".

Domestic saving has been low and has declined since the mid-1970's, and -- indeed -- net domestic saving has been negative in recent years. The real saving rate reached zero in 1972/3 and has hovered in the range of MINUS 10% of real GDP since then.

The real level of net domestic investment peaked in 1973 and has fallen off since then. At the same time aid has increased, so that aid is now significantly greater than net capital formation.

Consumption currently is greater than GDP or national income -- another measure for the extent to which consumption has been given priority over investment.

Between 1978 and 1983, spanning the two elections, real consumption increased by almost one-quarter, while real GDP was almost static; the borrowings and the new aid financed consumption, almost dollar for dollar.

Aid currently is financing consumption, not investment, and the decline in savings versus consumption reflects the various governments' priorities, since the growing volumes of aid have not been allocated to increasing levels of domestic investment but -- instead --are closely correlated with consumption spending.

4. Real tax rates are not high.

Effective tax rates, as computed by the Central Bank, are rather low in Israel, thanks largely to the elaborate system of welfare payments and subsidies.

Notionally, tax rates in Israel appear to be high, in recent years ranging around 50% of GDP. However, the actual tax burden is significantly less, and the difference is related to the structure of the Israeli economy and its extensive programs of subsidies, welfare payments, and other transfers which serve to offset the impact of the direct and indirect taxes.

The effective tax rate is much less than the ostensible figure of 50% -- it lies between 20 and 25%, or less than one-half of the nominal figure, according to central bank reports.

While the state does collect large tax revenues, it then redistributes half or more of those tax receipts back to its citizenry through a dazzling spectrum of programs. This redistribution blunts the effect of the tax system, increases equivalent real wages, and reduces the costs of goods, services, or housing for almost the entire population.

5. Burgeoning weapons systems exports cover increasingly the costs of arms imports.

   - Military costs are increasingly offset by profitable exports of a wide range of arms and weapons system components. The Ministry of Finance, in its regular submission detailing its aid demands, reports arms imports but omits the exports.

   Israel's arms sales are reported in recent years to have fluctuated in the range of $1 billion per year; earnings from sales of military equipment thus cover a large fraction of actual cash expenditures of foreign exchange for imported weapons.

6. Debt service is modest in relation to foreign exchange receipts.

   The debt service burden is comparatively light and is not a major or disproportionate cost for the economy, in spite of Israel's large per-capita debt.

   Debt service requirements are not a cause of the malaise and do not constitute any unusual burden upon the Israeli economy.

   Two factors mitigate Israel's costs of paying for its prior excess consumption. First, Israel owns considerable income-producing assets which earn foreign exchange. This income offsets half or more of the gross interest cost of that debt.

   Second, much of its debt is to the US government, at interest rates well below market cost, so that the gross interest charges are themselves lower than otherwise might be expected given Israel's very low commercial credit rating.

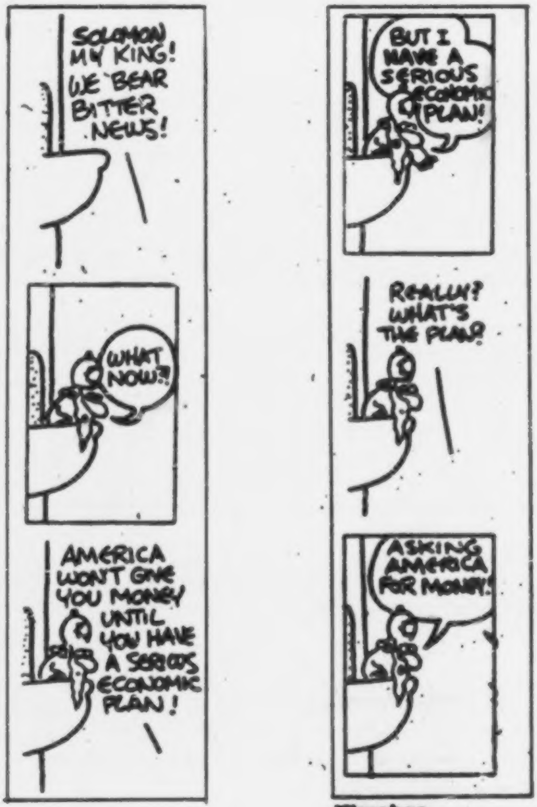
   Indeed, Israel profits from interest arbitrage here, and can borrow at low rates from the US in order to reinvest cash balances at much higher rates in other markets.

   Consequently, net debt service costs are notably less than 20% of total foreign exchange receipts, which means that Israel is better favored than most.

In conclusion, we note that neither weapons acquisitions (net) nor debt service impose inordinately high costs upon

Israel, as compared with numerous other debtor states.

Instead, its persistent deficits are more closely tied to steady increases in consumption, which in turn are tied to its comprehensive and costly system of subsidies and other welfare expenditures, so that growing amounts of aid are required if Israel is to continue to maintain the levels of consumption and relatively low rates of real saving or taxation, as desired by the Israeli voter.


SOLOMON MY KING! WE BEAR BITTER NEWS!
WHAT NOW?!
AMERICA WON'T GIVE YOU MONEY UNTIL YOU HAVE A SERIOUS ECONOMIC PLAN!
BUT I HAVE A SERIOUS ECONOMIC PLAN!
REALLY? WHAT'S THE PLAN?
ASKING AMERICA FOR MONEY!

Kirschen
Jerusalem Post
Cartoonists and Writers Syndicate

HUDSON INSTITUTE

STATEMENT OF JED SNYDER, HUDSON INSTITUTE

SECURITY ASSISTANCE REQUEST

Senator KASTEN. Our next witness is Mr. Jed Snyder of Hudson Institute.

Mr. SNYDER. Good morning.

Mr. Chairman, I appreciate the opportunity to appear before you today to examine the administration's fiscal year 1986 security assistance request. I am here to focus on Greece and Turkey primarily.

Let me emphasize from the start that I am here representing the Hudson Institute which is a nonprofit, private research institution conducting policy research in the public interest. My statement, which I understand will be placed in the record, will focus primarily on three issues which I believe ought to influence your decisions regarding the appropriation of security assistance funds to these two countries.

First, the Soviet naval buildup in the Mediterranean; the strategic aspects of the Greece/Turkish dispute; and Turkey's vital security role. I will also say a word about the current Greek Government's attitude toward NATO, which I regard as fundamentally hostile and increasingly anti-Western.

Let me start by saying that I think the deterioration of the situation on the southern flank is extreme. As I stated in recent testimony before Congressman Hamilton's Subcommittee on Europe and the Middle East in the House, my concern over the stability of NATO's strategic positions on the flank derives really from two parallel developments whose consequences, I believe were generally ignored.

SOVIET PRESENCE IN MEDITERRANEAN

First, a steady increase in the Soviet Mediterranean naval presence over the last 15 years, the capability of which, I think, rivals that of the U.S. Sixth Fleet, the major Western presence in the region, and, second, the increased hostility between Greece and Turkey and the resulting erosion of strategic cooperation between them.

The parallel evolution of potent external political-military challenges to the West and the increasingly serious erosion of NATO's southern flank combine to present an inviting target for the Soviet Union. For 35 years, NATO has tended to concentrate the vast majority of its resources and concern on central Europe, primarily the Federal Republic of Germany. Although the rationale for that original concern cannot be challenged, I believe that our appreciation for the breadth of the Soviet Union's threat to Europe must be expanded to include areas within NATO which have tended to be classified as theaters of secondary strategic value and whose vulnerability have consequently been discounted. The southern flank is a case in point.

I believe we must increase our level of effort in this region. Although U.S. military and economic assistance should not be regarded as the only available western tool, it can make a significant contribution to bolstering NATO's position there. In order to place the necessity for increased U.S. assistance in perspective, let me briefly outline the nature of the Soviet challenge in the south.

SOVIET FLEET

The principal Soviet military asset is the Mediterranean Fleet, the Fifth Escadra, which began deployment in 1964 as a small component of the Black Sea Fleet. By the end of 1960's, however, the Soviets had emerged as a substantial naval power. The Fifth Escadra was increasingly seen by a number of Arab States as potentially supportive in an Arab-Israeli conflict, which is another issue which I understand is important to you in the deliberations over security assistance for Egypt and Israel, for example.

Increasingly close political ties with Syria, Libya and Egypt ensured the availability of friendly ports at the same time that any western presence was increasingly unwelcome. The Soviet Fleet's strength, I think, became the lever of influence in the region, which in the late 1960's and 1970's began to rival that of the U.S. Sixth Fleet.

In any naval confrontation in this region, two Soviet fleets would become involved, the Fifth Escadra and the Black Sea Fleet. Their combined strength is considerable and includes two ASW carriers and a contingent of attack and cruise missle submarines.

ROLE OF TURKEY IN MEDITERRANEAN

Although these two fleets represent a very formidable force, the Montreux Convention which governs the flow of naval traffic through the Turkish Straits could act as an important constraint, impeding Soviet naval traffic in a crisis, which is one reason we ought to look seriously at Turkey's role in the region. In a conflict, the Turks will have something to say about Soviet transit in the area.

Just a word about the Soviet land conventional threat to the region, which I think is equally concerning. In defending the Turkish and Greek forces would face roughly 34 Soviet, Romanian, and Bulgarian divisions, 22 of which are in a fairly high state of readiness and are composed largely of mechanized forces. By comparison, the Greek and Turkish forces in this theater are limited to 25 divisions, and they are largely infantry, which means that they are not terribly mobile.

U.S. NAVAL PRESENCE IN REGION

Let me just say a word about the U.S. naval presence in the region to give this some balance. For most of its life, the U.S. Sixth Fleet has been composed of two aircraft carriers and an embarked Marine force, a total of 35 to 40 ships, including escorts and replenishment vessels. Each of the two carriers support roughly 85 combat aircraft of fairly current vintage.

It is important, however, to understand that that fleet has been cut by 50 percent because of our necessity to deploy vessels to the Indian Ocean in the wake of the Iranian revolution. So that that presence is cut almost permanently now by half, which means that you have reduced by half your ability to project power throughout the region.

An aircraft carrier is a mobile platform and must spend most of its assets defending itself, so one carrier is that much more vulnerable, I would say.

Let me just say, to summarize this part of the statement, the erosion, I think, of defense consensus among several southern flank States, particularly Greece, Spain, and Portugal, threatens the continued ability of the United States to support its military forces in the region. For example, the availability of Greek bases to support the Sixth Fleet will become questionable should Mr. Papandreou implement public threats to close all U.S. bases in Greece by 1988 when the current agreements expire.

SOUDA BAY COMPLEX

The most critical base is the Souda Bay complex. It is the fleet's most important anchorage in the eastern Mediterranean. It is a naturally protected anchorage. It is large enough for nearly the entire fleet, which makes it unique in the theater. In addition, it serves as a storage depot for ammunition, petroleum, oil, and lubricants. Adjacent to the port is an airfield capable of supporting C–141 aircraft which makes even more important for a projection role.

To sum up, the continued operation of U.S. bases in the region can no longer be taken for granted. I think over time negotiations between the United States and host nations in Europe will become more difficult as the European allies insist on a larger share of the U.S. security assistance budget in return for continued base access. An example, again, is the protracted negotiations that we engaged in with the Greek Government. I was in the State Department during the time, and many of us there felt that we were essentially being taken to the cleaners in order to get a guarantee which now looks, at least to my point of view, less and less credible.

I think there is a tradeoff between security assistance policy and our ability to remain in the region.

CYPRUS

The statement talks about the Aegean command and control dispute, but won't go into that now. Let me just say a bit about Cyprus because I think that is the most important current aspect of the dispute. As you know very well, Mr. Chairman, in November 1983 the leader of the Turkish community on Cyprus, Rauf Denktash, declared that the northern portion of the island would henceforth be the sovereign Turkish Republic of Northern Cyprus. Although northern Cyprus has been effectively split from the Greek Cypriot section of the island since Turkish forces invaded Cyprus in 1974, Denktash's declaration rejected the status quo of a federation on the island.

Despite developments since then, including the recent convening of talks under the U.N. Secretary General which ultimately failed, I suspect that the future of the island will be essentially two sovereign states on the island. Unless the United States and some of its allies are willing to take a stronger role in the negotiations, my view is that this will be an unsolvable dispute.

Here I would just suggest, as I have elsewhere, that the United States ought to consider a multilateral role here. The U.N. Secretary General's leverage is limited in this case, and the U.S. leverage is considerable, and I think it would be increased if we brought allies in the region who have concern there, including the British, for example, who maintain very large bases on this Cyprus and have something to do with maintaining the agreement on the island.

As you also know, the Reagan administration has been very alarmed at the behavior of the Greek Government during the Greek/Turkish/Cypriot trouble, in particular a number of statements by Mr. Papandreou which I think any reasonable person would regard as at least questioning to the Western presence in that part of the world. These include statements by Mr. Papandreou that perhaps the Soviets were really not culpable in the Korean Airline incident.

I see that I have a red light, so let me push through.

Senator KASTEN. I would ask that you summarize your statement.

Mr. SNYDER. Let me conclude by saying that I think it is important for the Congress, in appropriating these funds, to take some note of the recent statements by the Greek Government, and the suggestion that perhaps you ought to look more closely toward Turkey, particularly as the Greek Government looks a bit unsettled.

Senator KASTEN. We thank you for your statement, and for your contribution to the overall debate. I might say that we went to Cyprus in December and met with people on all sides, and I share your concern. Frankly, I have not given up, I think that there may be a way for negotiation there. I am not willing to simply say that we are going to end up with two independent states, but that is just an opinion.

Thank you very much for your testimony. We look forward to working with you.

[The prepared statement of Mr. Snyder follows:]

PREPARED STATEMENT OF JED C. SNYDER
DEPUTY DIRECTOR
NATIONAL SECURITY STUDIES

THREATS TO SOUTHERN FLANK SECURITY:
THE SOVIET BUILDUP AND THE GREEK-TURKISH DISPUTE

Mr. Chairman, members of the Subcommittee on Foreign Operations. I appreciate the opportunity to appear before you today as you examine the Reagan administration's FY 1986 security assistance request for Greece and Turkey. Let me emphasize from the start that I am here representing the Hudson Institute, a non-profit, private institution conducting policy research in the public interest.

My statement (which I understand will be placed into the Record) will focus primarily on three issues which I believe ought to influence your decisions regarding the appropriation of security assistance funds to these two countries (1) the Soviet naval buildup in the Mediterranean (2) the strategic aspects of the Greek-Turkish disputes, and (3) Turkey's vital security role. I will also say a word about the current Greek government's attitude toward NATO which I regard as fundamentally hostile and anti-Western.

The Deterioration of the Southern Flank

My concern over the stability of NATO's strategic position on the Southern Flank derives from two parallel developments whose consequences, I believe, are generally ignored: (1) a steady increase in the Soviet Mediterranean naval presence over the last fifteen years, the capability of which today rivals that of the U.S. Sixth Fleet, and (2) the increased hostility between Greece and Turkey and the resulting erosion of strategic cooperation between them.

The parallel evolution of potent external political-military challenges to the West and the increasingly serious internal erosion of NATO's Southern Flank combine to present an inviting target for the Soviet Union. For thirty-five years, NATO has tended to concentrate the vast majority of its resources and concern on Central Europe — primarily the Federal Republic of Germany. Although the rationale for that original concern cannot be challenged, I believe our appreciation for the breadth of the Soviet threat to Europe must be expanded to include areas within NATO which have tended to be classified as theatres of secondary strategic value and whose vulnerabilities have consequently been discounted. The Southern Flank is a case in point.

I believe we must increase our level of effort in this region. Although U.S. military and economic assistance should not be regarded as the only available Western tool, it can make a significant contribution to bolstering NATO's position there. In order to place the necessity for increased U.S. assistance in perspective, let me briefly outline the nature of the Soviet challenge in the South.

The Soviet Naval Challenge

The principal Soviet military asset on the Southern Flank is the Mediterranean fleet, the fifth Escadra. It began its deployment in 1964 as a small component of the Soviet Black Sea Fleet. Prior to this, the only Soviet naval presence in the region consisted of four W-class submarines based in Albania at Vlone, where the Soviets had established a base in 1958. In 1961, Albania sided with the People's Republic of China in the first public evidence of a Sino-Soviet dispute resulting in the loss of that naval installation.

By the end of the 1960's, the Soviets had emerged as a substantial naval power. The Soviet Mediterranean squadron (the Fifth Escadra) was seen by a number of Arab states as potentially supportive in an Arab-Israeli conflict. Increasingly close political ties with Syria, Libya and Egypt ensured the availability of friendly ports at the same time that any Western presence was increasingly unwelcome. The Soviet Fleet's strength became a lever of influence in the region which in the late 1960's and early 1970's began to rival that of the Sixth Fleet. The early Soviet deployments were the first attempts to create a self-sustaining naval force far from friendly ports. Initial operations were modest and generally limited to anchorages in international waters, mostly off Tunisia. Although the Soviet Mediterranean force of the early 1960's was more of a nuisance than a threat, the occasional citing of Soviet intelligence vessels did cause alterations in U.S. naval strategy in the region.

These early Soviet deployments differed substantially from those of the West. In particular, the Soviets had no aircraft carriers but did deploy a large submarine force. That large submarine force remains and the Soviets have begun to deploy aircraft carriers. The maiden voyage of the carrier Minsk occurred in the Mediterranean in 1979 as well as the first Soviet dual-carrier task group operation involving the Minsk and the Kiev. The Soviet navy now includes three Kiev-class carriers (with an additional one on sea trials) two Moskva-class ASW helicopter-carriers and a 75,000 ton nuclear-powered carrier is under construction. Currently, the largest routine Soviet naval deployments are in the Mediterranean.

The Soviet peacetime naval mission does not differ significantly from the U.S. goals -- power projection to a region where the maintenance of its interests requires a constant naval surveillance, support for regional allies, etc.

In any naval confrontation in this region, two Soviet fleets would become involved -- the Fifth Escadra and the Black Sea Fleet. Their combined strength is considerable and includes 2 ASW carriers and a contingent of attack and cruise missile submarines.

Although these two fleets represent a very formidable force, the Montreux Convention (which governs the flow of naval traffic through the Turkish Straits) could act as an important constraint, impeding Soviet naval traffic in a crisis. Turkey has primary responsibility for control of the Straits. The Straits are important to the Soviets not only as a military route, but as a commercial one as well. After Turkey, the Soviet Union is the largest user of the Straits with 62% of its naval trade passing through them.

The issue of sustainability is central to the naval balance of power in the Mediterranean. The Soviets have learned this lesson as a result of their expulsion from Egypt by President Sadat, where they lost use of all airbases in 1972 and all naval facilities in 1976. That event provoked the construction of underway replenishment ships that allow the Soviets a greater open-ocean presence and which would be valuable in a crisis.

Soviet access to Egyptian ports had begun during the 1967 Arab-Israeli War when, after the Egyptian sinking of the Israeli destroyer Eilat, Soviet ships moved into Port Said and Alexandria, ostensibly to place themselves between Israeli and Egyptian vessels to prevent Israeli retaliation for the sinking. Egyptian President Nassar welcomed the Soviet presence which lasted until the Sadat expulsion. The loss of Egyptian bases may not be permanent, however. Meanwhile, the Soviets may be able to gain access to Libyan bases (Tripoli or Beghazi) in an emergency.

The loss of naval access to Alexandria has had a large effect on Soviet submarine deployments. Prior to that access, Soviet submarines were in almost constant rotation from their home fleets in the Baltic and North Seas with fairly short deployments in the Mediterranean. The ability to anchor at Alexandria allowed much longer tours in the region. It is worth noting the recent Israeli reports of possible Soviet submarine deployments at the Syrian port of Tartus, which would give the Soviets an anchorage in the extreme Eastern Mediterranean. The Soviet submarine threat to the Sixth Fleet and allied navies is acute and in a crisis which had been preceded by weeks of escalation and reinforcement, the total Soviet Mediterranean submarine force could exceed 35. This would argue for an increased U.S.-NATO ASW effort, although such operations are difficult in the Mediterranean. It also suggests that the submarine component of the Sixth Fleet should be increased.

The threat posed by Soviet Naval Aviation (SNA) has grown substantially over the last decade with the Crimean deployments of the TU-16 "Badger" (equipped with AS-5 and AS-6 surface-to-air (SAM) missiles) and TU-22 M "Backfire" bombers (equipped with AS-4 SAMs). The air threat to the Mediterranean has increased significantly, requiring greater attention to theatre air defense and increased efforts at modernizing NATO land-based air assets in the region.

The increasing Soviet SNA threat (combined with the reduction in the number of U.S. carriers permanently attached to the Sixth Fleet) would complicate efforts by the Sixth Fleet to assist NATO ground forces in a defensive battle with Warsaw Pact troops. Air superiority over the Mediterranean and its littorals would be a first priority, after which sea-control would follow. In sum, NATO's ability to "influence" the course of a Southern Flank land battle would be greatly reduced as the Sixth Fleet becomes more vulnerable itself, particularly if the U.S. preemptively withdraws the one carrier from the Eastern Mediterranean in the event of a crisis.

The Soviet land conventional threat to the region is also considerable. In defending Turkish Thrace, Turkish and Greek forces would face 34 Soviet, Romanian and Bulgarian divisions, 22 of which are in a high state of readiness and are composed largely of mechanized forces. By comparison, Greek and Turkish forces available in this theatre total only 25 divisions, largely infantry. In eastern Turkey, 20 Soviet divisions are deployed against eight Turkish divisions. The air balance in the region is even more asymmetrical, favoring the Warsaw Pact.

Should Soviet air and naval forces erode the U.S. naval tactical air umbrella in the Eastern Mediterranean, effective synergistic operations with land-based tactical air in Turkey and Greece would become impossible. Although an effective, coordinated Soviet attack would have to include long-range bombers, anti-ship missiles and submarine-launched missiles, presenting operational complexities for Soviet planners (preparations for this would give some strategic warning to NATO) a three-pronged attack is within the realm of current Soviet capability.

Finally, although the Sixth Fleet would present a very vulnerable target for the Soviets, attacking it would escalate the conflict immediately and raise the threshold of a limited operation beyond the point where Soviet planners might be prepared to go.

The U.S. Naval Presence

For most of its life, the U.S. Mediterranean Fleet (the Sixth Fleet) has been composed of two aircraft carriers and an embarked Marine force, a total of 35-40 ships including escorts and replenishment vessels. Each of the two carriers support roughly 85 combat aircraft of current vintage. Four to seven amphibious ships lift a Batallion Landing Team and its support; roughly 2000 marines. Viewed as part of the overall U.S. contribution to NATO, Sixth Fleet resources are not trivial. The Sixth Fleet composition has (until recently reduced) included 2 aircraft carriers and a number of nuclear attack submarines.

This deployment has been reduced by one-half, however, due to the need to shift naval forces to the Indian Ocean/Persian Gulf in the wake of the Iranian Revolution and concern over a Soviet threat. As a result, in its current configuration (i.e. only one carrier most of the time) it is unlikely, that the Sixth Fleet's carrier would play a major role in a conventional battle since concern over its vulnerability to Soviet bombers would dictate its early removal in the event of conflict. The author's recent conversations with U.S. naval planners suggest a decision has already been made to protect the one Sixth Fleet carrier by "preemptively" withdrawing it from the Eastern Mediterranean. "The Chief of Naval Operations (CNO) would never allow one carrier to steam east of Sicily in the event of a conflict; two maybe."

Fleet Operations

The Sixth Fleet has a fairly secure logistical peacetime network in the Mediterranean, maintaining access to NATO bases in Greece, Turkey and Spain. This is true, however, only in the NATO context. Were the Sixth Fleet to assume a unilateral role in support of Israel during another Arab-Israeli conflict, its access would be questionable, as key NATO allies might be reluctant to assist the U.S. in a non-NATO operation. Recall, for example, the refusal of Turkey to assist the United States in its efforts to aid Israel in the 1973 Arab-Israeli war, as well as recent Turkish refusal to assist in logistical support for the deployment of U.S. Marines to Lebanon.

The erosion of a defense consensus among several Southern Flank states -- Greece, Spain, Portugal -- threatens the continued ability of the United States to support its military forces in the region. For example, the availability of Greek bases to support the Sixth Fleet will become questionable, should Mr. Papandreou implement public threats to close all U.S. bases in Greece by 1988. The most critical U.S. base is the Souda Bay complex on the northwest side of Crete near Canea (Khania). Souda Bay is the Sixth Fleet's most important anchorage in the Eastern Mediterranean. It is a naturally protected anchorage, large enough for nearly the entire fleet. In addition, it acts as a storage depot for petroleum, oil and lubricants (POL) and ammunition for NATO forces. Adjacent to the port is an airfield capable of supporting C-141 transport aircraft. Loss of Souda Bay would deprive the Sixth Fleet of a key anchorage which may be irreplaceable.

The continued operation of U.S. bases in the Southern region can no longer be taken for granted. Negotiations between the U.S. and host nations in Europe have become more difficult, as the European allies insist on larger shares of the U.S. security assistance budget in return for continued U.S. base access. For example, after protracted negotiations between the governments of Greece and the U.S. on the continued use of bases (including naval access to Souda Bay) argeement was finally reached, after much stalling due to both increased domestic Greek protest to a U.S. presence (heightened as a result of the October 1981 election of the socialist Papandreou Government) and Greek insistence on a larger annual military aid package.

The use of U.S. aid as a bargaining tool in the base rights talks has become a larger problem with other Southern Flank states as well, including Spain and Portugal. The Sixth Fleet can and has operated without an extensive basing network, but the availability of Allied bases has enabled the U.S. Navy to sustain its presence at the lowest possible cost in fleet assets. Its ability to "show the flag" has proved significant in a number of instances, including the Gulf of Sidra incident, support for Israel during the 1967 and 1973 Arab-Israeli wars and a constant reminder to Syria that a Soviet presence in that country will not be unopposed by the United States.

The Pernicious Effect of the Greek-Turkish Disputes

As the Soviet challenge to the Southern region has increased, so have tensions between states in the region. Most particularly, relations between the region's two key security anchors -- Greece and Turkey -- have deteriorated so dramatically that there is serious question about NATO's ability to conduct a coordinated defense should a Soviet attack occur. At a time when Soviet and Warsaw Pact assets in the south have increased, NATO has neither increased its readiness in the region nor has it moved to resolve the military aspects of the Greek-Turkish dispute.

Although Greek-Turkish tensions include many issues, I will briefly focus on two-- the Aegean dispute and the Cyprus issue.

Aegean Command and Control and U.S. Base Rights

The Aegean dispute between Greece and Turkey includes several complex issues: delineation of the continental shelf, control of the sea, the vital airspace between the Greek and Turkish mainland, and military jurisdiction.

This discussion will be limited to the last two issues and how it has affected another difficult problem - the U.S. aid levels to Greece and Turkey.

Before Greece withdrew its military forces from NATO in 1974 in response to the Turkish invasion of Cyprus, Aegean defense was under the sole command of an American officer based in Izmir, Turkey - the commander of the Sixth Allied Tactical Air Force (COMSIXATAF) who had three subordinates, two Turks and a Greek. The Greek commander had operational control of the airspace from the western coast of Greece to the Flight Information Region (FIR) boundary line off the west coast of Turkey. Thus, prior to 1974, the Greeks controlled the air defense over most of the Aegean. In addition, before 1964 the NATO command demarcation line was not the FIR line but rather a line roughly along the 26 East longitude. Turkey never fully agreed to the change made by the Supreme Allied Commander, Europe (SACEUR) in 1964 which made the air defense line coincident with the FIR line.

To further complicate the situation, shortly after the 1974 Greek withdrawal, Turkey ordered all eastbound planes to begin reporting to Turkish air control authorities halfway across the Aegean, while they were still in Greek airspace. The Turks were insisting on an arrangement which would guarantee against the possibility of lightning strikes by the Greek air force. Another development after the Greek withdrawal — the July 1978 action placing COMSIXATAF under a Turkish rather that an American commander — has further impeded a return to the pre-1974 command structure.

The dispute has been further inflamed by Greek rearmament of some of the Aegean islands, in violation (the Turks argue) of both the 1923 Treaty of Lausanne and the 1947 Treaty of Paris which established their demilitarization. The Greek government has generally claimed that the rearmament decision was made necessary by the creation of the Turkish Fourth Army, deployed within striking distance of the Greek islands and essentially created to protect against Greek aggression. It should be pointed out, however, that the Greeks militarized the islands in 1964, eleven years before the creation of the Fourth Army.

A NATO committee was established to resolve these very difficult issues which are not trivial and in the final analysis are really questions of sovereignty. General Alexander Haig, the Supreme Allied Commander in Europe (SACEUR), took a very personal interest in this dispute, in part because of his feeling that the Southern Flank was a vital region in NATO and that should a crisis occur there, command and control would become issues of paramount importance. After consultations with General Davos, the Greek representative, General Haig suggested in May 1978 that a new Greek command be established at Larissa, Greece which would take operational control on an interim basis over the air defense of the entire Aegean up to the FIR line. The new commander in Larissa would be a Greek officer.

The Haig-Davos arrangement would have established a command structure for the Aegean similar to the pre-1974 arrangement except that a Greek commander would not be located at the same headquarters. Turkey disapproved of the proposal arguing that once Greece re-entered NATO, the interim proposal would become permanent since Greece (under the NATO consent rule) would be able to exercise an effective veto over any change. In October 1978 Turkey vetoed the first Haig approach. Haig offered two other approaches, neither of which were acceptable to both parties.

General Bernard Rogers, Haig's successor as SACEUR, has attempted to resolve the problem on several occasions, but to date has not met with success. This dispute has now resulted in the disruption of NATO maneuvers on the Southern Flank. Recently, NATO decided to exclude the Greek island of Limnos from its maneuvers, because of Turkish protests over its militarization. In September 1983 Greece withdrew from NATO naval maneuvers in the Eastern Mediterranean, after NATO's decision to exclude Limnos, which Athens read as acceptance by the U.S. of the Turkish position. Athens also refused to allow a U.S. warship to load ammunition (destined for the U.S. Marines in Beirut) from the Souda Bay naval installation on Crete. This, while reports surfaced that Syrian ships were being allowed to use Greek ports to resupply their troops in Lebanon.

Limnos lies just off the Turkish coast in the northeastern Aegean. Greek Prime Minister Papandreou felt that agreeing to the exclusion of Limnos from NATO exercises would support the Turkish position on militarization. In November 1982, Papandreou refused to allow the Greek forces to participate in NATO maneuvers for the same reason, stating that:

> "Limnos belongs to Greek territory and according to the Montreux Treaty, the Greek government has every legal right to militarize it. Therefore, failure to

> recognize this right of the Greek government within the framework of a NATO exercise is unacceptable to us."

Greek Reintegration

The Greek Government has stated that the 1980 agreement which brought Greece back into the NATO military structure, promised to restore all rights to which the Greeks had been entitled prior to their withdrawal. Others, including General Rogers, have taken a different interpretation of the 1980 accord - that it restored Greece's place within the Alliance, after which command and operational rights would be settled. A review of the public record confirms that General Rogers' interpretation is the valid one.

A Turkish Republic on Cyprus

In November 1983, the leader of the Turkish community on Cyprus, Rauf Denktash, declared that the northern portion of the island would henceforth be the sovereign Turkish Republic of Northern Cyprus. Although northern Cyprus has been effectively split from the Greek Cypriot section of the island since Turkish forces invaded Cyprus in 1964, Denktash's declaration rejected the status quo of a federation on the island.

Turkish forces invaded Cyprus to reverse a coup by the Greek Orthodox leader and Cypriot President Archbishop Makarios. At that time Britain refused a Turkish request to support the invasion. Although the Turkish Cypriot leader had threatened to declare a sovereign state in the past, the move was not anticipated at that time. In my private discussions with Turkish officials during a 1983 trip to Turkey, it was offered that the Turkish government (particularly the Foreign Ministry) was angered by the timing of Denktash's declaration which came before the December 1983 Turkish general elections.

Since February 1975 the Turkish Federated State of Cyprus was the Turkish minority community of 150,000 on the island, founded with its own constitution and governing legislature. The Greek-Cypriot community of 500,000 residents is led by Presdent Kyprianou who established his own federated state. The Turkish federated state was considered to be a component of the Greek-Turkish federation on Cyprus.

The November 1983 Denktash declaration was immediately condemned by the

U.S. and by a U.N. Security Council resolution. Only Turkey has recognized the new state. As co-guarantor of the 1960 treaty which gave Cyprus its independence, Great Britain announced that it would seek a reversal of the decision as part of a larger effort to achieve a settlement of the historic dispute. Questions were raised as to whether Britain had an obligation under the 1960 treaty, to use military force to return the Turkish section of the island to its previous status. Britain maintains a small force of about 4,800 military personnel on the island, about 500 of whom are members of a 2,500 man UN force. They are stationed on two British military bases on the island.

The Greek government quickly condemned the formation of a sovereign Turkish state on Cyprus, declaring that the Turkish government bore full responsibility for the action of the Turkish Cypriot leadership.

The Turkish government has made clear its intention to support the new state including the use, if necessary, of the 15,000 man Turkish garrison on the island. With the December 1983 decision by Denktash to form a National Assembly on Cyprus, the opportunities for a settlement appear to be slim. The decision in April 1984 for Ankara to exchange ambassadors with Cyprus, seemed to harden (for the time being) the November 1983 action.

In January 1985, however, the leaders of the Greek and Turkish Cypriot communities agreed to meet for the first time in more than five years under the auspices of U.N. Secretary General Javier Perez de Cuellar at the U.N. in New York. Although a draft treaty received tentative endorsement by both sides prior to the U.N. talks, the meetings ended in failure over a number of issues including the insistence of Mr. Denktash that Turkey must remain a permanent guarantor of the Turkish Cypriot community's security.

My discusions with a number of individuals close to the U.N. talks, however, suggest that in consultations prior to the U.N. meeting, the Greek Cypriot leader, Kiprianou, misled the U.N. Secretary General into thinking the draft agreement presented no problems for him. As a result, the Turkish Cypriot leader, Denktash, arrived in New York under the false impression that an agreement was likely. As of this writing no additional talks on Cyprus are planned, although the Greek and turkish Cypriot leaders have suggested that the U.S. should take a more direct role as a mediator.

Papandreou and Greek Participation in NATO

In October 1981, Andreas Papandreou. the leader of the Panhellenic Socialist Movement (PASOK) was elected Prime Minister of Greece in an impressive victory which ended more than three decades of nearly uninterrupted conservative governments. More importantly, the PASOK campaign platform called for radical change in Greek foreign policy, particularly Greece's continued membership in NATO. Papandreou is bitterly anti-American, due in part to his belief that the United States engineered the April 1967 military coup in Greece which led to his imprisonment and exile.

Papandreou is as suspicious of NATO as he is of the United States. He does not believe NATO (as it is presently configured) will be appropriately sensitive to Greek foreign and domestic concerns. He also is much less concerned about the Soviet threat than he is about Turkish aggression directed against Greece. In fact, Papandreou has adopted a cordial relationship with the Soviet Union. In February 1983, he issued a joint communique with Soviet Premier Nikolai Tikhonov, supporting the concept of a Balkan nuclear-free zone, which would mean removal of all U.S. nuclear weapons from Greek soil. He also supported the Soviet proposal for a Warsaw Pact-NATO non aggression pact, which Alliance leaders have rejected publicly. During a visit by Tikhonov, Papandreou signed a ten-year accord of economic cooperation which includes an agreement for the construction of a plant to produce 600,000 tons of alumina, which the Soviet Union requires for the production of aluminum metal. Bilateral trade is to be increased from $570 million annually to $1.4 billion.

The Reagan administration has been alarmed at the Greek behavior during the base negotiations with Washington as well as Athens' recent overtures toward Moscow. In a formal protest, U.S. Assistant Secretary of State for European and Canadian Affairs, Richard Burt, protested the Papandreou Government's support for Soviet arms control policy as well as Greek support for the repressive Soviet-backed Jaruzelski regime in Poland.

U.S.- Greek tensions rose as the result of the base negotiations, and Papandreou's generally hostile attitude toward the Reagan administration. Emergency landings of U.S. aircraft at Souda Air Base in Crete have, for example, resulted in protests by the Greek Government where the U.S.

Ambassador Monteagle Sterns was summoned to explain the landings to Greek Deputy Minister of Foreign Affairs Ioannis Kapsis. The Greek Government refused to accept the U.S. explanation of fuel problems and equipment failure.

The Greek government has also been hypersensitive to the movement of Turkish warships in the Aegean. During recent Aegean naval maneuvers, a Turkish ship fired a number of shells which the Athens government determined were directed at Greek ships in the vicinity of the maneuvers. After Papandreou announced that the incident was "the worse provocation against Greece since the 1974 Turkish invasion of Cyprus," threatening to recall the Greek ambassador from Ankara and instituting a military alert, the Greek Foreign Minister announced that "clarifications by Turkey" had resulted in a reversal of the Greek responses.

Although the U.S. and Greece finally reached agreement on U.S. access to military bases in Greece, Papandreou has announced that when the current five-year agreement expires in 1989, the lease will not be renewed. This has resulted in a delay by DoD officials in implementing a $150 million program for the upgrading of these bases.

Turkey's Critical Role

Turkey is of obvious importance to the defense of the Southern Region. It is the only NATO member (excluding Norway) to share a border with the Soviet Union. In addition to control of naval traffic through the Bosphorus and Dardanelles, Turkey also has potential control of the vital airspace in the region. In addition, it is ideally located to assume a role in any Persian Gulf contingency.

The record of U.S.-Turkish relations since the Truman Doctrine does not reveal a linear progression. Indeed, that relationship has been mercurial. At the height of this strategic partnership in the 1950's, Turkey proved to be a valuable ally in America's effort in the Korean War, constructing 26 U.S. military bases on Turkish soil, including major installations and intelligence gathering facilities.

U.S. Bases in Turkey and the Soviet Threat

The United States maintains a number of facilities in Turkey which are critical to both U.S. and NATO security policy in the region. These facilities include intelligence collection bases at Sinop on the Black Sea coast and Diyarbakir (Pirinclik) in southeastern Turkey. Several of these facilities provide valuable intelligence data on Soviet military activity in the Southwestern Military Theatre (TVD) as well as monitoring Soviet strategic missile tests. Other major U.S. installations include Incirlik Air Base, Izmir Air Station and Cigli Air Base. Incirlik is one of the most critical U.S. air bases in the southern region, serving as a deployment point for U.S. Air Forces in Europe (USAFE) as a key component of USAFE's NATO base network. In addition, NATO has placed 16 stations of the NATO Air Defense Ground Environment (NADGE) network in Turkey which, while requiring modernization, help to protect the U.S. Sixth Fleet in addition to providing part of an air defense net for Turkey.

In sum, while the size of the Turkish army is impressive, its equipment is antiquated and in disrepair. Turkey's position as NATO's first line of defense in the south dictates greater attention by the U.S. and NATO to its military posture.

Soviet policy toward Turkey has included components which may seem at first to be contradictory. The Soviet Union has invested heavily in the social destabilization of Turkey's population, while simultaneously underwriting the construction of Turkish steel mills, cement factories and aluminum plants. By 1978, Turkey had become the largest single recipient of Soviet aid among semi-industrialized states. In late 1978, the governments of Turkey and the Soviet Union signed a three-year trade pact which included a Soviet promise to provide roughly 24% of Turkey's petroleum supplies.

Moscow is primarily interested in separating Turkey from NATO. That strategic objective is to be accomplished by pursuing several policies which may appear contradictory but which are in fact complementary. These policies include: (1) threatening to continue to direct substantial resources toward a vast propaganda program designed to accentuate the already tense historically-rooted tensions which exist between various segments of Turkey's socially heterogenous populous; and (2) to create the climate for detente between Moscow and Ankara by offering a program of economic aid through favorable credit and grant programs, infinitely more attractive than any comparable efforts by the European Economic Community, the World Bank or NATO.

Here it is important to note Turkey's difficulty in securing credit from Western institutions. Thus, the attractiveness of Soviet economic assistance flows on the one hand from the lack of alternatives and on the other hand the desire by the Turkish government to reduce Western control over its economic recovery program. Although Turkey has been able to secure loans from a number of international lending institutions, the West will have to do more than it has to date.

Soviet arguments for a close relationship between Moscow and Ankara have looked quite attractive to Turkey, particularly during periods of strain in U.S.-Turkish relations. That factor ought to be considered by the Congress, when considering the administration's aid request.

Turkey--Islamic or Western or Both?

One of Turkey's potentially vital strategic roles is its location as a bridge connecting NATO Europe with the Middle East. Turkish reluctance to allow its facilities to be utilized in a Middle Eastern contingency is related to Turkish policies toward the Arab states. Her determined efforts to be accepted by the states of the Arab Middle East since the 1960's reflect Ankara's historic dilemma of political and religious identification. On the one hand, Turkey has labored to be accepted as a Western state, whose security concerns are embodied in NATO membership. On the other hand, her Islamic ties to the Arab world prescribed a policy which at least questioned the utility of a strong Western allegiance. Geography has also dictated a special role for Turkey which has both strategic advantages and socio-religious liabilities. Her vital role as NATO's southeastern anchor tends to exacerbate the difficulty in becoming accepted in the Arab world where suspicions of Western "hegemony" could be fueled by the image of a Turkish Trojan Horse in the Middle East.

Security Assistance

Since today's hearing deals with security assistance, let me conclude by briefly outlining my view of this issue. The relative amounts of military and economic assistance appropriated to Greece and Turkey by the United States Congress has provoked an annual political debate which tends to exacerbate the tensions in Greek-Turkish relations. Neither state believes its security needs should be judged against those of its neighbor and neither country is content with the present levels of aid.

To date, the U.S. Congress has apportioned aid to Greece and Turkey at a ratio of 7-10, respectively. The Reagan administration's FY 1986 security assistance proposal includes $785 million for Turkey in Foreign Military Sales (FMS) and Military Assistance Program (MAP) grants with an additional $150 million in Economic Support Funds (ESF) and 4.0 million in International Military and Education Training (IMET). The proposed levels for Greece include $500 million in Guaranteed FMS credits and 1.75 million in IMET.

In my opinion, the Administration's request correctly reflects the greater strategic contribution of Turkey to NATO. I would urge the Congress to abandon past practices of crafting a 7 to 10 ratio of aid to Greece and Turkey.

While I recognize the powerful influence of the Greek lobby in this country, there are a number of principles which should govern the appropriation of security assistance, particularly during a period of budget stringency. Administration aid requests ought to be evaluated primarily on the basis of need and a nation's contribution to U.S. and NATO security interests. In addition, however, to a certain extent the level of U.S. security assistance ought to be affected by the political orientation of the recipient state.

The current Greek government's attitude to both the United States and to NATO can only be described as rejectionist and hostile. Mr. Papandreou's publicly stated anti-Western pontifications including his outrageous suggestion that the Soviet shootdown of a Korean civilian airliner was warranted (due to its involvement in a U.S. intelligence-gathering operation), are all examples of how the current Greek regime sees its role in the West.

Let me emphasize, I am not here today to attack Greece. In fact, Greek contributions to Western security are potentially significant. In my view, however, they are unlikely to be realized so long as the national leadership in Athens insists on rejecting Greece's place in NATO and as an ally of the United States. Whether Panandreou's view is shared by the Greek public, is an open question but a vital one in assessing the seriousness of the political shift in the region. His recent decision to abandon support for Mr. Caramenlis in the upcoming presidential election, suggests his long-term goal of increasing his support among communist members of the parliament and thereby broadening his base of public support.

Finally, Greece and Turkey ought to realize that the security of each of the two countries is somewhat dependent on mutual support for each other. It would be tragic for the Western Alliance if the Greek-Turkish dispute allowed the security of the region to deteriorate to the point where the temptation of the Soviet Union to exploit these tensions became irresistable.

InterFaith Action for Economic Justice

STATEMENT OF LARRY MINEAR, INTERFAITH ACTION FOR ECONOMIC JUSTICE

PUBLIC POLICY ISSUES

Senator Kasten. Our next witness is Mr. Larry Minear, representing the InterFaith Action for Economic Justice.

Mr. Minear.

Mr. Minear. Thank you very much, Mr. Chairman. It is a pleasure to be back again and present our annual recommendations to you.

As you know, the InterFaith Action for Economic Justice is now serving its second decade of work on public policy issues. During those 10 or 12 years, we have had an ongoing relationship with your committee. We appreciate your hearing our testimony each year. We have had an ongoing dialog with staff, and we appreciate their openness to review our ideas.

Our statement this year is entitled, "Foreign Aid: Some Necessary Course Corrections." I am delivering informally here on the basis of and on behalf of InterFaith Action for Economic Justice, which is a coalition of 25 national Protestant, Catholic, Jewish, and ecumenical agencies which work together on these issues.

In this particular instance, the statement is not—the Jewish groups in our coalition are not associating themselves with our statement because of the recommendations that we are making on the Middle East. But with that exception, our group is firmly behind these recommendations.

AFRICA SUPPLEMENTAL

Before I lead you through those, let me mention a concern about the Senate appropriations action on the Africa supplemental. We were delighted that you were able to move this bill through, but we are concerned because the House/Senate conference still has not taken place on that measure. We would like to encourage that this go forward as soon as possible. As you know, AID's funds for Africa emergency response were exhausted as of roughly March 1, so that we are hoping that perhaps even this week the House and the Senate can get together.

Senator KASTEN. I might say to you, and I think you understand, that there are a number of different political efforts being launched in regards to tradeoffs in terms of going to conference, but it is my latest information that we are at least going to make a try at going to conference this afternoon at 2 o'clock.

Mr. MINEAR. Excellent.

Senator KASTEN. That at least is a start, but there are some extraneous issues that have been put into the debate, and I guess that is the way the political process works.

Mr. MINEAR. We appreciate your efforts.

Senator KASTEN. As you also know, I just want to say, it is not the Senate that has failed to name conferees. There was a reluctance on the part of the House to name conferees, and that is why we have been delayed for the last several days.

Mr. MINEAR. I didn't mean to place the responsibility over either body, I just wanted to encourage that this move as quickly as possible.

RECOMMENDATIONS

As for our recommendations this year, I would like to begin by calling your attention to a chart that we have in the back of our statement. I think that the points that we are making come most easily if we simply review what we are calling, U.S. foreign aid under the Reagan administration.

On the left-hand column, we have several categories: Development assistance; security assistance; and other. These are basically the categories which OMB has used in previous years to separate out various portions of the program.

Going across our statement to the right, we have the figures for the year fiscal year 1981, which was the last year of the previous administration's stewardship of the foreign aid program. We then move to fiscal year 1985, which is a continuing resolution levels from the current year without any supplemental which you may pass. Then the next column is the fiscal year 1986 request of the President, which assumes, for our purposes here of comparison, an item of $1.2 billion for Israel.

The last column to the right suggests a change in the balance within the foreign aid program over this 5-year period. You will notice that in fiscal year 1981, at the point when the Reagan administration took over the management of the program, development assistance activities which, as we define it, includes multilateral and bilateral aid, the Peace Corps, Public Law 480, and so on, represented 49.4 percent of the total foreign aid program. As of the current year, the proportion has shrunk to 38.9 percent. If this committee and the Congress approve the administration's request as you have it before you, it would be 34.9 percent of the total program that represents development assistance.

From the column on the right, you can see that there has been a net loss to the program of 14.5 percent in development assistance, and similarly a net gain in security assistance of 14.3 percent.

Our basic problem with the request of the administration and with the trend of recent years is that the development assistance account we believe should be the centerpiece of the U.S. foreign aid policy has been shrinking, and the priority has been given instead to the security assistance account.

It is frequently said that there isn't a constituency for foreign aid program. I think it is true that if the Reagan administration's request for 1986 is honored by the Congress there will probably not be a constituency for a program that includes roughly $2 for military assistance and ESF assistance for every $1 in development assistance. On the other hand, if the program were corrected a bit so that there was a larger proportion committed to development assistance, we believe that there is and will be a constituency for that kind of foreign aid program, which we will be happy to support.

Those are the basic data that we would like to call to your attention. Based on those, we have several recommendations.

The first one is essentially that the committee freeze the foreign program at fiscal year 1985 levels. What this would do would be to pick up savings of some $958 million in security assistance, which would be a major savings. We have indicated that our Jewish colleagues would prefer to see the levels of security assistance requested for Isreael, which are higher in 1986 than in 1985, honored. But our basic position as a coalition is that across-the-board freeze of security assistance would be in order.

We are also suggesting that if you freeze the program at 1985 levels, you would have more funding provided for development assistance, that is to say, you would pick up some $486.7 million in development assistance, which from our standpoint would make for a better balance within the program.

As you probably heard, the Foreign Relations Committee yesterday, when it was marking up the aid bill, suggested a freeze at 1985 levels for both security assistance and development assistance. Our recommendation is slightly different, we are saying a freeze for security assistance at 1985 levels, and since the 1986 levels for development assistance are higher, we would like to see those higher levels protected.

Actually, to be more clear, the Lugar-Dodd amendment took the lower of the 1985 levels for the present 1986 request. We would like to see a different approach taken by your committee.

Senator KASTEN. We would ask that you summarize your statement.

Mr. Minear. Very briefly, then, the other recommendations that we have, suggest some additional cuts beyond the freeze in security assistance, and some additional add-ons in development assistance. We feel that if you are able to rebalance the program along these lines, you will have support among development groups for what you do.

Senator KASTEN. We thank you for your testimony. As you point out, a lot of these numbers are involved in the aid to Israel and the aid to Egypt, and that is where you evidently ran into at least some points of discussion among your coalition and there are significant increases in both Israel and Egypt over the past couple of years.

The other thing is that it is difficult to classify, as you have done, ESF as total military, that is a debate that goes on in various circles. Some would say that a significant percentage of that in fact relates to developmental aid. Nevertheless, we appreciate your analysis, and we appreciate your contribution to our efforts. We look forward to taking into consideration some of the points that you have raised.

Thank you very much.

Mr. MINEAR. Thank you.

[The prepared statement of Mr. Minear follows:]

Interfaith Action for Economic Justice

PREPARED STATEMENT OF LARRY MINEAR

MEMBER OF THE BOARD

FOREIGN AID: SOME NECESSARY COURSE CORRECTIONS

I am Larry Minear, a board member of Interfaith Action for Economic Justice, which is a coalition of 25 national Protestant, Roman Catholic, Jewish and ecumenical agencies that work together to achieve just and effective US food and agriculture, health and human services, and development and economic policies. Interfaith Action speaks for itself*.

Mr. Chairman, we welcome this opportunity to appear once again before the Foreign Operations Subcommittee to offer our views on the Reagan Administration's foreign aid request for the upcoming fiscal year.

The overriding concern that we have sought to bring to the attention of the subcommittee in recent years is that of the relative priorities within the US foreign aid program as reflected in the funding levels for the various components of the program. In our view, the fundamental challenge facing Congress as it reviews the Administration's Fiscal Year (FY) 1986 request is to restore greater balance to the US foreign aid program by halting the trend toward more security assistance and less development aid.

As the attached table indicates, the Administration, with congressional acquiescence and approval, has already accomplished a major shift in the balance within the foreign aid program. In FY 1981, security assistance accounted for 49.8 percent of the program, while development aid totalled 49.4 percent. At the end of the first term of the Reagan Administration, security assistance claimed 60.2 percent of the foreign aid total, while development assistance dwindled to 38.9 percent. If approved, the balance reflected in the FY 86 request would shift another 4 percent, with 64.1 percent of the foreign aid resources requested for security assistance and 34.9 percent for development aid.

This shift is even more alarming when increases within specific programs are examined. Military aid, for example, has increased by 84 percent: \$2.7 billion from \$3.2 billion in FY 81 to \$5.9 billion in FY 85. The FY 86 request, if approved, would increase military aid by an additional 13 percent over FY 85 to 6.7 billion.

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*The Union of American Hebrew Congregations (UAHC) dissents from that portion of the testimony that calls for a freeze in FY 1986 security assistance levels. UAHC believes that the Congress should seek to redress the imbalance between security and development assistance without reducing support for Israel.

Economic Support Fund (ESF) aid increases have paralleled those in military aid. In FY 81, the US supplied 21 countries with ESF aid totalling $2.1 billion. In FY 85, $3.8 billion in ESF is going to 41 countries--an increase over FY 81 of 80 percent. The amount requested for FY 86 increases by another $200 million to $4 billion.

Increases in development aid have not kept pace with security increases. The FY 85 development aid total of $6.3 billion represents a 17 percent increase over the FY 81 total of $5.3 billion. The development assistance funds requested by the Administration for FY 86 would actually decrease by $300 million from the FY 85 level.

A SHORT-SIGHTED AID PROGRAM

The US foreign aid program, as suggested by the data, has gone badly astray. The skewing of foreign aid resources is based on an overemphasis on East-West conflicts, a heavy reliance on military responses to perceived threats to US interests, and a lack of attention to long-term interests. In particular, the trend downplays the goal of promoting equitable development that benefits poor people in developing countries. This goal was stated clearly in the 1973 Foreign Assistance Act, which called for "self-sustaining economic growth with an equitable distribution of benefits in the Third World."

Interfaith Action is deeply concerned that the proposed budget would have serious consequences, including:

(1) Further militarization of the Third World;

(2) Diversion of resources from vital development activities; and

(3) Undermining of US multilateral relations and programs.

(1) Further Militarization of the Third World

Attempting to bring about change through excessive military aid is a form of coercion alien to the interest of the US and recipient countries. Military aid of the magnitude proposed in the FY 86 budget would work against US goals in the Third World. It would reinforce the tendency of the US to see the dynamics of the Third World through the lens of East-West conflict and thus obscure the indigenous roots of Third World conflict and change. For example, witnesses appearing before one subcommittee earlier this year claimed that US military aid would be used by their countries (Sudan and Liberia) for repression and denial of human rights.

Military aid also frequently fuels the arms race among Third World countries. The possibility of fueling eventual conflicts, to which the US is not a party, puts the US in a position of helping create conflicts over which it has no control. Finally, military aid that polarizes and destabilizes the Third World heightens the possibilities of the US and Soviet Union clashes. This danger already exists in the Middle East, where the US has armed both parties in a conflict.

The effect in many countries of the availability of substantial sums of easy-credit or grant military aid is to encourage the buildup of military establishments that cannot be maintained without continued external assistance. Continued increases in military aid or even the sustaining of current levels of military aid in the absence of a thorough review of these issues are unsupportable. We urge the subcommittee, in addition to freezing military aid at FY 85 levels, to require evaluations by the Administration of the effectiveness of US military aid.

ESF aid has increased over the last four years for a variety of reasons. ESF seeks, in part, to respond to the economic crisis experienced by developing countries as a result of the global recession. ESF provides balance of payments assistance desperately needed by many countries.

However, review of the country allocation of ESF aid suggests that much of the assistance is intended to serve many of the same short-term objectives as military aid. Some 43 percent of the assistance in FY 85 goes to just four countries. The selection of these countries reflects strategic and political considerations.

ESF aid under this Administration has given heavy emphasis to promoting policy reform in recipient countries. Several serious questions can be raised about this approach. First, it is not clear that a bilateral initiative, involving relatively small amounts of aid, offers sufficient incentive to leverage policy change. Second, we believe that a multilateral approach to policy reform is preferable, and urge the subcommittee to examine the effectiveness of ESF policy reform efforts.

Base rights: The amount of military aid provided to countries in return for base rights, transit or access agreements has increased dramatically in recent years. The amount of military and ESF aid to the five countries with whom the US has base rights agreements (Philippines, Greece, Portugal, Spain, and Turkey) has increased by 145 percent from $947 million in FY 81 to $2.3 billion in FY 85. Harry Shaw, former director of the International Security Division of the Office of Management and Budget during both Democratic and Republican administrations, has charged that the Reagan Administration has scrapped procedures designed to hold down the aid levels made available for such agreements. The Congress has shown little willingness to restrain the amount of aid requested by the Administration for base, access, and transit rights.

(2) Diversion of resources: There are funding tradeoffs within the foreign aid program--resources committed to military aid are not available for development assistance. The same is true in recipient countries; funds for military expenditures are unavailable for other pressing needs. In addition, a strengthening of the military establishment within a country may serve to skew internal decision-making toward larger military expenditures.

US Aid to Africa: An Illustration of Misdirected Priorities

Africa provides an instructive illustration of the priorities within the current US aid program. There is almost universal agreement that the most pressing need facing Africa today is for increased agricultural production and long-term development. The US response to this need has been much more security-oriented than development-oriented.

As regards the emergency food situation in Africa, we commend the Administration and Congress for the US response during the last few months. The US has now provided more than one million tons of emergency food aid during the current fiscal year to famine-stricken African countries--more than double the amount provided during all of FY 84.

Statements by AID Administrator Peter McPherson and other officials linking the African food crisis to underlying longer-term development problems of poverty and disease have been encouraging. The FY 85

Congressional Presentation appeals eloquently for longer-term aid to assist in soving fundamental problems of recurring food shortages and accelerating economic development. Unfortunately, the FY 86 budget request for Africa would not, in our view, turn the Adminstration's rhetoric into reality.

The FY 86 request continues a trend toward security assistance by proposing a very minor increse in bilateral development assistance for Africa of 1.3 percent over the FY 85 level, contrasted with proposed increases of 8.7 percent for ESF and 29.7 percent for military aid. If approved, development assistance for sub-Saharan Africa would increase by 11.7 percent between FY 81 and 86; ESF by 219.4 percent; and military assistance by 176.9 percent.

Economic assistance for Africa (ESF and development aid) is heavily concentrated in a handful of countries that have special political or security relationships with the United States. Four countries--Sudan, Liberia, Kenya, and Somalia--with only 12 percent of the population of sub-Saharan Africa are slated to receive 43 percent of all economic aid for that region under the Administration's FY 86 foreign aid request.

We believe that neither the security emphasis nor the concentration of funds in just a few countries serves Africa well. In our view, the most serious problems of sub-Saharan Africa are not security-related but development-related. Assistance for agriculture, health, and other basic development programs, as well as macro-economic support for many of the policy reforms governments have already begun undertaking, is desperately needed. To achieve a more balanced US aid approach to Africa, we recommend lower levels of security assistance (especially military aid), modest increases in develoment assistance (primarily in multilteral programs), and a reallocation of assistance (particularly ESF aid) among countries. Country allocations to other regions deserve review with the same concerns in mind.

(3) Undermining US Multilateral Relations and Programs: We are seriously concerned about the lack of support for multilateral relations and programs in the proposed budget. Voluntary UN programs (including UNICEF, the UN Development Program, the UN Environmental Program, and others) would be cut by over $160 million between FY 85 and FY 86. Missing entirely from the President's budget is a request for IFAD. We believe that multilateral organizations are the best vehicle for instituting the kinds of policy reforms that the US advocates around the globe. Yet the US is losing its reputation as a team player.

Last year the US cut its commitments to the International Development Association (IDA), which provides critical support for countries in sub-Saharan Africa and elsewhere that cannot afford economic support from other sources. This year the Administration has not projected any funds for the African Regional Bank or the soft loan windows of the African and Asian Regional Banks after FY 87, when current commitments expire. This action sends a signal that alienates our allies and potential friends in the Third World.

Recently, the World Bank Special Funding Facility for Africa raised over $1 billion for the continent's long-term recovery. The US did not contribute, despite the necessity for an international commitment to help reverse Africa's precipitous economic decline. The US commitment to provide emergency food aid to the sub-Saharan area is of vital importance, but our response is myopic if it is limited largely to emergency aid.

RECOMMENDATIONS FOR FY 86

Our main recommendation is very straightforward: freeze FY 86 foreign aid funding at FY 85 levels as a first step. We suggest that the freeze be applied to each account, with only the few exceptions outlined below. In addition, we recommend some selected additional cuts in security assistance and modest increases in development aid to restore a better balance to the program. Finally, we recommend a reallocation of ESF resources.

1. Freeze foreign aid funding at FY 85 levels.
   Such a freeze would halt the steady trend toward increased security assistance and decreased development aid. As such, it could constitute an important first step toward restoring a more balanced foreign aid program. In addition, the move would be consistent with the budgetary stringency required by the current US budget deficit.

   A freeze in all accounts would mean a rejection of $958.2 million in proposed increases in military and security aid and restoration of $486.7 million in development assistance that would otherwise be cut from the foreign aid program. Within the freeze, we recommend provision for the following:

   $150 million for US participation in the World Bank Special Facility for Africa. This amount represents the difference between the US contribution to the sixth and seventh replenishments of the International Development Association (IDA), the largest single source of development finance to Africa. Together with the FY 86 IDA request, the additional funds would equal the FY 85 funds appropriated for IDA. Currently, the US does not plan to participate in this program, to which some 13 nations and the bank itself have contributed $1.1 billion. The special facility will provide economic assistance to African countries in support of policy reforms, especially in the agriculture sector.

   Up to $120 million for US participation in the Second Replenishment of the International Fund for Agricultural Development (IFAD) and a generous contribution to the Special IFAD Program for Africa during the same years. IFAD is perhaps the premier intergovernmental development organization working with small farmers. With replenishment talks nearing completion, appropriations for FY 86--and authorization for FY 86-88--are needed in this year's regular foreign aid legislation. A US contribution to the new IFAD Special Program for Africa would be consistent with the recent and favorable AID evaluation of IFAD's work and with the conclusion of the recent OTA report that the small farmer is key to increased African food production. As with IDA, the two IFAD add-ons could be made within the $90 million in funds available in FY 85.

2. Make selective cuts in security assistance.
   Because we believe that even the FY 85 foreign aid funding levels are badly out of balance, we recommend additional cuts, such as in security assistance.

   Sudan ESF: We have become increasingly concerned about reports of growing political repression and economic disarray in Sudan. The Administration is understood to have held back $194 million in ESF aid for precisely those reasons. Under these circumstances, we believe a cut of at least $20-$25 million from the $114 million current ESF level for Sudan would be fully justified.

Cutbacks in the Military Assistance Program (MAP) for some of those countries whose MAP has grown most markedly over the past several years. Examples include El Salvador and Honduras, Somalia, Botswana, Kenya, Liberia, and Sudan, and Greece and Turkey. We also recommend deletion of MAP funding for regional military programs in Central America, which are included in the FY 85 total.

Modest ESF cuts below FY 85 levels: Similarly, reductions could be made in the ESF programs of several major recipient countries, such as El Salvador, Liberia, Kenya, and Somalia, for example.

3. Make modest increases in development aid.

We believe that the following modest increases in development assistance, which could be funded by some of the savings in security aid, are justified by the pressing needs they would address:

--An additional $4.6 million in bilateral development aid to Africa to bring the African total up to the FY 86 request level;

--$3 million for the African Development Foundation to carry out the projects it has approved for FY 86;

--An additional $25 million to meet the Administration's FY 86 request for the African Development Fund;

--Additional funding for the International Organizations and Programs account to support the work of UNICEF and the UNDP Africa Poverty Fund.

4. Reallocate ESF aid.

ESF balance of payments assistance should be more equitably allocated among developing countries, many of which are experiencing severe economic difficulties. We recommend shifts within the ESF account to provide assistance to the Andean countries--Peru, Bolivia, and Ecuador--although we hope that aid to Peru might be conditioned on stricter observance of human rights.

Conclusion

A US foreign aid program along the lines of the FY 86 funding request is so imbalanced that it will not, we believe, command the support of people concerned about long-term US interests, particularly equitable development in Third World countries. In fact, unless significant changes are made in it, groups such as ours might feel compelled to work actively against its enactment. We urge you, therefore, to draw the line this year by rejecting the further distortion of foreign aid resources the Administration requests. In our view, the future of the foreign aid program, and its value to poor people in developing countries, hangs in the balance.

U.S. Foreign Aid Under the Reagan Administration

	FY81		FY85[3]		FY86 Request[4]		FY86
	$Mill	% of total foreign aid program	$Mill	% of total foreign aid program	$Mill	% of total foreign aid program	% change over FY81
Development Assistance[1]	5,252.8	49.4	6,309.7	38.9	5,823.0	34.9	-14.5
Security Assistance	5,289.3	49.8	9,735.8	60.1	10,694.0	64.1	+14.3
Economic Support Fund	2,104.5		3,826.0		4,024.0		
Military Aid (Total)	3,184.8		5,909.8		6,670.0		
MAP	110.2		305.1		949.4		
IMET	28.4		56.2		65.6		
FMS	3,046.2		4,939.5		5,655.0		
Guaranty Reserve	--		109.0		--		
Other[2]	88.9	0.8	160.8	0.9	162.6	1.0	+0.2

[1] Includes bilateral programs (AID's functional development assistance and operating expenses, Sahel Development, American Schools and Hospitals Abroad); the Inter-American and African Development Foundations; the Peace Corps; PL480; refugee programs and disaster assistance; and economic assistance through international organizations and programs and the multilateral development banks (excluding callable capital and the IMF).

[2] Includes Peace-keeping Operations, the Foreign Service Retirement Fund, and miscellaneous programs (Trade and Development, International Narcotics, Anti-Terrorism).

[3] Excludes supplementals and includes $40 million in on-budget funds for Housing Investment Guarantees.

[4] Assumes a request for Israel of $1.2 billion.

U.S. OVERSEAS COOPERATIVE DEVELOPMENT COMMITTEE

STATEMENT OF CHARLES F. DEAN, PRESIDENT OF THE COOPERATIVE HOUSING FOUNDATION, ON BEHALF OF THE U.S. OVERSEAS COOPERATIVE DEVELOPMENT COMMITTEE

COMMITTEE ACTIVITIES

Senator KASTEN. Our next witness is Mr. Charles F. Dean, President, Cooperative Housing Foundation, on behalf of the U.S. Overseas Cooperative Development Committee.

Mr. DEAN. Thank you.

We have a fairly long statement, and what I would like to do is highlight it just briefly.

First, a little bit about the Overseas Cooperative Development Committee, which is a group that started in 1962. It includes 16 U.S. cooperative organizations, some of which—they are all listed here in the testimony, but I would like to mention a couple.

CARE, for example, is a cooperative that was established in 1952 by the U.S. coop groups, CENEX from Minneapolis, MN, Land O'Lakes, also out of Minneapolis, the National Council of Farmer Cooperatives, the National Rural Electric Cooperatives, which is strong in Wisconsin, the Credit Union National Association has its headquarters in Madison, WI, and that is probably one of the strongest U.S. coop organization as far as what they have done overseas.

One more comment on Wisconsin, the University of Wisconsin has an international training center for cooperatives, and people come from all over the world to get training in the United States.

OCDC GOAL

The goal of the OCDC is primarily to take the techniques that we have developed here for people to help themselves, and transfer those techniques overseas. There are a number of reports by the U.S. coops on their overseas work, so I am going to skip the part of our testimony which describes that. They are working all over the world.

In recent years, there has been more interest in combining the economic and social development part of our foreign assistance program with the political development. We think that that is probably good. We think that coops offer a way to allow people in developing countries to participate in a democratic exercise. They can do this at the community level even when at the national level a democratic system may not be possible. So we support the efforts of AID and Congress to encourage the development of democracy through the aid program, especially in countries where they don't have a democratic system.

We would also like to point out that U.S. type cooperatives are completely different from the so-called cooperatives of the eastern European and the Communist countries which they are developing in Cuba and now in Nicaragua. The U.S. coops are democratic, they are in the private sector, and they come from the bottom up. The Communist countries develop their coops from the top down under something that they call democratic centers.

AID LEVEL FOR FISCAL 1986

We have some comments in our testimony on the overall level of aid for fiscal year 1986. Without going into the numbers, basically, we would like to see the economic aid at the actual level that was true for 1985, approximately $6.6 billion was the amount in fiscal year 1985, and we would like to see the economic aid in 1986 frozen at that level.

ECONOMIC SUPPORT FUNDS

Senator KASTEN. Do you recall, Mr. Dean, how you are scoring ESF? Are you scoring economic support funds in economic or in military?

Mr. DEAN. ESF is included in the economic in the figure I just gave you.

Senator KASTEN. You are scoring it under the economic.

Mr. DEAN. Yes.

Senator KASTEN. Thank you.

Mr. DEAN. We support, incidentally, in our testimony. We believe that that is an important category of aid that you can't do social and economic development unless you have security. So we support an integrated package.

Our testimony has specific amounts for certain sections that we are especially interested in, section 103 and section 106, and I won't comment further on those.

LATIN AMERICA AND THE CARIBBEAN

I would like to talk about Latin America and the Caribbean Basin for a minute. We recognize that there will be juggling within the amounts of aid between areas and countries. We think that for many years Latin America didn't get its fair share, and perhaps if we had put in some preventive economic and social aid a few years back in Central America, we wouldn't be spending $1.3 billion this year to try and straighten things out.

There are a lot of countries that have moved back into the democratic category in Central America and Latin America, and they need our support. Panama we single out in our testimony as a country that was overlooked somewhat in the Kissinger Commission. It is a very important country. It is barely back into the democratic category, and we think that the ESF funds might be adjusted upward in that country.

AID HOUSING GUARANTEE PROGRAM

We have 10 items in our testimony ranging from the African food crisis, and I am going to skip through several of them, and focus on one that is important to our organization, it is the AID Housing Guarantee Program. That program does not use appropriated funds, and we think that it should be looked at very carefully before it is terminated. It has been proposed to be cut back to $45 million in 1986, and terminated in 1987.

It is a program that addresses low-cost housing in settlements all over the world. It is not subsidized. People pay for the house, and they become homeowners. The Kissinger Commission for Central America was counting on approximately $200 million under that program to carry out its recommendations but if terminated that money won't be there.

Other areas, Morocco was mentioned earlier here today, Turkey, the Philippines, countries that are very important to the United States where if it were continued at the $160 million level, it would not in effect be appropriated funding.

We do thank you for the support of the legislation that will help the African food crisis. CARE, as I mentioned, is one of our members, and they are very active in the problems in food in Africa right now.

ENERGY ASSISTANCE

In regard to energy assistance, one of our members is the National Rural Electric Cooperative Association, and they are active in Central America. Last year, there was an effort made, I think it was Senator Larry Pressler who in last year's bill proposed a Comprehensive Rural Electrification Program in Central America, and that still needs to be pushed a little bit.

We have other comments on Public Law 480, and the private sector revolving fund, but they are all in the record. I want to thank you for the time you have given us.

Senator KASTEN. I want to thank you for finishing exactly when the light changed.

Mr. Dean, as you know, we have a good working relationship with your group. We look forward to continuing working with you. We support the goals that you are working toward. I am from a state that has a strong tradition of coops, both electric, telephone, and agricultural.

I share your goals, and we look forward to working with you toward a number of the issues that you have discussed here today.

Thank you very much for your testimony.

Mr. DEAN. Thank you very much, Senator.

[The prepared statement of Mr. Dean follows:]

U.S. Overseas Cooperative Development Committee

PREPARED STATEMENT

PRESENTED BY CHARLES F. DEAN
PRESIDENT
THE COOPERATIVE HOUSING FOUNDATION

I. INTRODUCTION

Mr. Chairman, I appreciate this opportunity to testify before this Subcommittee in support of the U.S. Foreign Assistance Program. I will briefly summarize our statement and submit the entire statement for the record.

First, I would like to provide some background on the U.S. Overseas Cooperative Development Committee (OCDC). Formed in 1961, OCDC consists of senior representatives from the sixteen U.S. cooperative organizations listed below and the World Council of Credit Unions. More than 60 million Americans are served by these cooperative organizations.

Agricultural Cooperative Development International (ACDI), Washington, D.C.
Association of Texas Electric Cooperatives, Austin, Texas
American Institute of Cooperation (AIC), Washington, D.C.
Blue Ridge Electric Membership Corporation, Lenoir, North Carolina
CARE, New York, New York
CENEX, Minneapolis, Minnesota
Cooperative Housing Foundation (CHF), Washington, D.C.
Cooperative League of the USA (CLUSA), Washington, D.C.
Farmland Industries, Kansas City, Missouri
Land O'Lakes, Minneapolis, Minnesota
League Insurance Companies, Detroit, Michigan
National Council of Farmer Cooperatives, Washington, D.C.

National Farmers Union, Denver, Colorado

National Rural Electric Cooperative Association (NRECA),
Washington, D.C.

Volunteers in Overseas Cooperative Assistance (VOCA),
Washington, D.C.

World Council of Credit Unions (WOCCU), Madison, Wisconsin

II. GOAL OF OCDC

The Overseas Cooperative Development Committee provides a focal point for cooperation among private sector U.S. cooperative organizations in their international work. Its goal is to help establish or strengthen cooperative organizations in developing countries by adapting some of the cooperative self-help techniques that have been so successful here in the United States.

III. INTERNATIONAL WORK OF U.S. COOPERATIVES

U.S. cooperative organizations have a long history of working in developing countries. The first efforts in the late 1950s and early 1960s were focused on Latin America and the Caribbean and later expanded to Asia and Africa. Although cooperatives take different forms, they are normally established as private sector, not-for-profit business enterprises which are operated for the benefit of their members. They are democratically controlled through the principle of "one member, one vote".

In developing countries, they can offer poor people a way to help themselves with a minimum of outside assistance. The cooperative concept is readily acceptable and understood throughout the developing world. Cooperatives can be used to increase productivity in both rural and urban areas. Cooperatives can help small farmers to pool their resources to purchase fertilizer, seeds, farm implements, transport goods and expand their markets. They can help urban people with self-help home improvement or obtain credit for small business enterprises. Experience has shown that low income people will save and contribute their limited resources to a cooperative enterprise which they view as an opportunity for their own economic advancement.

Funding for much of this international work is provided by the U.S. Agency for International Development (AID), local governments and cooperatives in developing countries. There has also been some financial support from the World Bank, regional development banks, the United Nations Development Program (UNDP), the United Nations Capital Development Fund (UNCDF) and the Organization of American States (OAS). The cooperative members in developing countries provide substantial amounts of money and human resources for these activities. For example, the 3 million members of credit union cooperatives in Latin America have mobilized more than one billion dollars in assets through their savings. The member organizations of OCDC have extensive reports and other material available on the results of these overseas programs and will provide copies upon request.

IV. COOPERATIVES' ROLE IN PROMOTING DEMOCRACY

For many years, AID focused primarily on economic and social development and there was little discussion of the political impact of these programs. Recent events in Central America and elsewhere have caused changes in this approach and as a result the inter-relationship of political, social, and economic aspects is being intensely studied and debated.

OCDC strongly supports the efforts of Congress and AID to promote democratic principles and democratic political systems as an integral part of our foreign assistance programs. Experience has shown that social and economic development efforts are not very effective in countries where there is repression of individual freedom by governments of the extreme left or extreme right. We believe the U.S. should be in the business of promoting democracy worldwide as part of its development assistance program.

A true cooperative is really a democracy in miniature. They are controlled by democratic principles of one member with one vote. The members elect their board of directors and exercise vigilance over fiscal and management matters. A cooperative is basically a private sector economic enterprise that also has value in promoting social and political development.

We believe that there are very important benefits from the development of true U.S.-type cooperatives in the developing countries where there is no history of democracy. Cooperatives can offer a way for people to participate in a democratic exercise at the community level even where the national system is undemocratic in nature.

U.S.-type cooperatives are quite different from the so-called "cooperatives" of Russia, Eastern Europe, Cuba or Nicaragua. Their system is basically "top down" in nature. They are controlled by the governments through something called "Democratic Centralism". In contrast, the U.S.-style cooperatives are clearly private sector entities developed on true democratic principles.

AID has supported the development of cooperatives with the technical assistance from U.S. cooperative development organizations (CDOs) for more than 20 years. There is a strong legislative history of bipartisan support from Congress to continue and expand these private sector, self-help programs. We are pleased to note that the AID Congressional Presentation for Fiscal Year 1986 continues this support.

V. SPECIAL CONCERNS FOR FISCAL YEAR 1986

We have reviewed the AID FY 1986 Congressional Presentation and would like to note the following areas of concern.

A. Overall Funding Levels

The proposed FY 1986 total AID Economic Assistance amount of $4.966 billion is significantly lower than the actual level for FY 1985 which exceeded $6.646 billion.

In view of the increasing worldwide need as a result of recent events such as the famine in Africa, and the desperate situation facing the fragile democracies in many countries, we strongly recommend an overall level at least equal to the actual level spent in FY 1985.

We urge the Subcommittee to fully appropriate the requests for AID's 103 Functional Account: Agriculture, Rural Development and Nutrition at $797,352,000. Much of U.S. overseas cooperative development work is funded from this category. Cooperatives can play an essential role in helping rural people in their economic and social development through self-help efforts.

In addition, we urge full funding of AID's 106 Account: Technical Assistance, Energy, Research, Reconstruction and Selected Development Activities at $223,071,000. Cooperatives offer ways for urban people to meet their credit and housing needs. Many of AID's private enterprise programs are also funded in this account and we support these new initiatives.

While we do not take a formal position on the military or security funding, we recognize that economic and social development is not possible without a secure and relatively stable environment, free from violence and fear of violence.

B) Latin America and the Caribbean

During the past few years there has been amazing progress toward more democratic governments in this hemisphere. Newly elected governments are now in place in El Salvador, Panama, Ecuador, Brazil, Uruguay and Argentina. Upcoming elections will increase democratic control in such countries as Guatemala. Other countries such as Bolivia and Peru, are suffering serious social, political and economic problems which threaten continued democratic control.

In view of the critical importance of this area to the national self interest of the United States, we support the Administration's request of $1.3 billion in economic assistance to the region as a minimum. Additional ESF funding should be made available for several countries such as Panama which was almost overlooked by the National Bipartisan Commission on Central America. The FY 86 AID request includes only $40 million in ESF funding for this strategically important country which has just moved back to a democratic government and desperately needs more U.S. help.

C) African Food Crisis

The U.S. cooperative community is extremely concerned about the current African food crisis and supports the urgent supplemental appropriations currently under consideration in Congress. As founders and members of the board of CARE (the Cooperative for American Relief

Everywhere), several of our cooperative organizations are deeply involved in relief measures, both short and longer term, to alleviate this human tragedy. In addition to CARE, U.S. cooperative development organizations active in African countries are the Agricultural Cooperative Development International, the Cooperative League of the USA, the Cooperative Housing Foundation, the National Rural Electric Cooperative Association, Volunteers in Overseas Cooperative Assistance, and the World Council of Credit Unions. These organizations are working on longer range problems which will help improve food production, distribution, marketing, as well as self-help shelter and community services. We applaud the efforts of AID .pa Administrator, M. Peter McPherson, and Congress to dramatically increase the volume of U.S. economic and food aid to Africa under very difficult circumstances.

Unfortunately, too many African nations have tried to develop cooperatives within government structures, rather than promote independent democratic cooperatives in the private sector. We support AID's policy initiatives urging African countries to move away from parastatal (state-controlled) boards and cooperatives. However, we believe that AID can better achieve changes in host country policies by direct funding of private sector demonstration projects.

We also support AID's increased participant training programs for Africa, and the U.S. cooperative community stands ready to dramatically increase its program of practical training within U.S. cooperatives.

D) Credit Union Development in Latin America

During the past 25 years a three million member cooperative thrift and credit system has been developed throughout Latin America with technical assistance from the Credit Union National Association (CUNA), the World Council of Credit Unions (WCCU) and with support from AID. These 200,000 credit unions, located in 18 countries with over one billion dollars in assets, are now experiencing tremendous economic stress as a result of high inflation, devaluation and political unrest. This proven private sector financial network with its democratic self-help approach for assisting low and moderate income people is currently endangered.

We urge the Committee to adopt report language to encourage AID and other international institutions in which the U.S. participates to provide assistance to strengthen the capacity of the Latin American credit union system to withstand the current financial crisis. Further, we urge AID to target the proposed increases in participant training for Latin America to credit union leaders so they can gain the experience and knowledge to help them overcome these current difficulties.

E) Rural Electrification in Central America

Last year, the House of Representatives adopted sense of the Congress language which directed AID to support a comprehensive rural electrification program in Central America. A similar provision was sponsored by Senator Larry Pressler in the Senate authorization bill which did not reach the floor.

We encourage the Subcommittee to adopt similar report language as to that of the House Appropriations

Committee which reiterated the importance of fostering the expansion and delivery of electrification to rural populations in Central America. The National Rural Electric Cooperative Association (NRECA) is in the process of developing an initial survey for a comprehensive program.

F) Extension of AID's Housing Guaranty Program

In reviewing the Administration's FY 1986 AID budget, we were very disappointed to note that the AID's Housing Guaranty Program has been sharply reduced to only $45 million for 1986. That amount is to be used for Panama and Portugal where existing commitments have been made. The program is to be terminated after 1986.

These guarantees allow private U.S. funding (instead of appropriated funds) to be used for low-cost, self help housing at very little cost to the U.S. texpayer. Unlike many domestic housing programs, this program makes credit available at market interest rates and requires full cost recovery from the home owners. It encourages host governments to eliminate costly subsidized housing programs.

We have worked with this program over the years and have first-hand knowledge of the wide benefits housing guarantees have provided to very low-income people throughout the world by helping them to improve their shelter and community services. We believe that providing opportunities for shelter, home ownership and jobs for poor people is one of the most effective ways to fight communism.

It is our understanding that the decision to eliminate the program was not based upon a review of the program itself. The reason given in the Congressional Presentation of AID is that the program has an adverse impact on U.S. credit market. We seriously question whether that is true. The program at its normal level is far too small in relation to the U.S. credit market to have a significant effect. Yet its impact in developing countries is tremendous.

We strongly recommend that the program be extended at the previous level of approximately $160 million through FY 1986 and FY 1987. During that time, we recommend that the program be carefully evaluated, perhaps with special hearings some of which could take place in the field where the program results can be seen. If the benefits of the program do not greatly outweigh the supposed adverse impact on the U.S. credit market, a decision to terminate the program could then be made in a more rational manner.

G) Energy Programs

Energy remains a problem of crisis proportions in the oil importing developing countries. Many are still 90 percent dependent on oil more than a decade after the oil embargo. Energy imports are consuming a large percentage of export earnings, about half of merchandise exports in many cases. Large foreign debts have developed in response to unmanageable energy import costs. Resources to finance increasing energy imports are rapidly diminishing, but without the means to supply energy, economic growth will not occur.

To achieve one percent of income growth in developing countries, commercial energy consumption must increase by 1.3 percent. Even more to the point, energy inputs to agriculture must increase by two percent to achieve every one percent of growth in this critically important sector.

In short, the energy "crisis" may have subsided in the industrial countries, but energy is still a major concern in many developing countries. They are still having to reduce investment and consumption in other sectors to pay for oil. Only now, their economies are weaker than before the crisis, and they are reaching the limits of their capacities to borrow to make ends meet. In an alarmingly large number of cases, debt service and energy imports exceed 100% of total merchandise export earnings. These countries have not solved the energy crisis; they are losing ground to it.

Yet AID seems to be backing away from energy in its Development Assistance program. Development Assistance funding for energy is sharply lower in the Administration's FY 86 budget request, following a series of reductions in recent years. Energy spending is down 60 percent since FY 81. This sends the wrong signal to AID recipient countries. It delays the commitment of badly needed investments in rural energy distribution systems, renewable energy sources -- such as biomass energy systems and small hydro -- and energy conservation improvements.

We urge AID to restore Development Assistance funding to energy. Funding for energy programs represents only two percent of total Development Assistance. This already small percentage will be reduced even further under the FY 86 request. Specifically, we urge that Development Assistance funds for energy be maintained at least at FY85 levels, both in the geographically allocated and centrally-funded programs. This will larger programs, but will pay large benefits in addressing a critically important development need.

H) Local Currencies and the Private Sector

U.S. cooperative development organizations have assisted with a number of programs utilizing locally generated currencies from PL 480 and Economic Support Funds (ESF) for the creation of host country cooperative financial institutions and for other purposes.

We believe that the use of local currencies has been too frequently directed to government programs and that too little is made available through private sector organizations and cooperatives. We urge the Committee to include report language in this year's legislation encouraging greater use of cooperatives for all local currency programs worldwide.

I) Private Sector Revolving Fund

Again, this year, the U.S. cooperatives support the request for the Private Sector Revolving Fund which we believe can be a useful tool in increasing private enterprise development in the Third World.

We have recently had encouraging discussions with the Private Enterprise Bureau of AID for development of private sector cooperatives utilizing this fund.

J) Promotion of Democratic Cooperatives

Last year, the Senate Foreign Relations Committee included a provision in its bill which recognized that in addition to their role in social and economic development, cooperatives provide an opportunity for low and moderate income people to participate directly in democratic decision making.

Cooperatives offer large numbers of low and moderate income people an opportunity to directly participate in democratic decision making on issues which are of vital importance to them. They elect their own leaders, set their budgets and hire or fire their cooperative managers, all through a democratic system of one member, one vote.

In many developing countries, the results of national elections are still viewed with great skepticism by the vast majority of the poor. In contrast, cooperative elections are generally viewed as fair and honest examples of the democratic process at work. This provision would emphasize these less tangible benefits of cooperative development funded by AID.

VI. SUMMARY OF RECOMMENDATIONS

A) Total Funding for FY 86 economic assistance should be at least at the requested level of $4.966 billion which would be a reduction from the approximately $6.646 billion level of FY 85. Within the overall budget constraints, we would encourage the Subcommittee's consideration of restoring some of these reductions back to the FY 85 level.

B) The Latin American region total of $1.3 billion should be increased, if possible, to support democratic development and stability in our hemisphere.

C) We support and applaud Congress's recent efforts to alleviate the African food crisis and support AID's policy dialogues to move African cooperatives out of the government structure and into the private sector.

D) We urge AID to provide emergency assistance to credit unions in Latin America which are suffering from inflation, devaluation and political unrest.

E) We urge AID to move forward with a comprehensive rural electrification program in Central America.

F) The AID Housing Guaranty program should be extended at current levels (approximately $160 million per year) through FY 1986 and FY 1987 and not be terminated.

G) Funds for AID's energy programs should be maintained at least at FY 85 levels, both in geographical allocation and centrally-funded activities. This restoration would require a small shift in funds.

H) Local currency from PL 480 and ESF programs should be used more for private sector programs of cooperatives and less for government projects.

I) We support the request for the Private Sector Revolving Fund.

J) We urge AID to make more use of cooperatives in promoting democratic decision making in keeping with the provision included in the Senate authorization bill under Promotion of Democratic Cooperatives.

On behalf of OCDC, I want to thank you for this opportunity to share our views with the members of this Subcommittee.

AMERICAN HELLENIC INSTITUTE

STATEMENT OF MR. DEAN C. LOMIS, AMERICAN HELLENIC INSTITUTE, PUBLIC AFFAIRS COMMITTEE

ACCOMPANIED BY GEORGIA DALIANI, EXECUTIVE DIRECTOR

GREECE, TURKEY, AND CYPRUS AID

Senator KASTEN. Mr. Lomis.

Our next witness is Mr. Dean C. Lomis, American Hellenic Institute, Public Affairs Committee.

Mr. LOMIS. Thank you, Mr. Chairman. I truly appreciate the opportunity to appear before you today, along with Mrs. Georgia Daliani, who is our executive director, on behalf of the American Hellenic Institute's Public Affairs Committee, and summarize views of the foreign aid appropriation legislation for fiscal year 1986 affecting Greece, Turkey, and Cyprus.

The administration proposes $939 million in military and economic aid for Turkey, and for Greece, $500 million in foreign military sales, and $3 million for Cyprus. We oppose this proposal as contrary to the best interests of the United States.

We do not believe that friendships can be bought, and history attests to that. With the large budget deficits we are facing, and at a time when we are cutting funds on important social programs in our country and our own people suffer, we support foreign aid at the lowest possible level and only if after careful consideration and scrutiny we are convinced that it indeed serves vital interests.

TURKEY

Regarding Turkey, we recommend a reduction to the level of earlier years, namely, a total of $150 million in military aid and, of course, economic aid to be combined, and all of it subject to an agreed settlement based on majority rule with full minority rights guaranteed and all Turkish troops and colonists removed from Cyprus. My full statement sets forth a full set of conditions.

CYPRUS

With regard to Cyprus, we recommend that the proposed amount of $3 million be increased to $50 million as was done last year, and that no parts of these funds be used by or earmarked for the Turkish Cypriots until they revoke their illegal action of November 15, 1983.

For nearly 11 years, Mr. Chairman, since 1974, we have been testifying before the various committees of the Senate and the House, we have been meeting with administration officials seeking nothing more than to convince the administration to pursue an evenhanded policy vis-a-vis Greece, Turkey, and Cyprus, and to insist on adherence to the rule of law on its own part and by Turkey.

As American citizens that we are, most of us having served proudly in the Armed Forces of our Nation, we are concerned by the confusion that American foreign policy failures have created across the globe, and particularly in the eastern Mediterranean. Because we happen to know more about this region, and because of our duty as American citizens to become involved in the interests of the United States, we seek strengthening of the NATO alliance, justice for Cyprus, protection for Greece, democracy for the people of Turkey, and improvement of bilateral and collective relations between and among Greece, Turkey, Cyprus, and the United States.

Nearly 11 years ago, when the unwarranted and illegal Turkish invasion, and subsequent occupation of Cyprus occurred, the U.S. Congress, the voices of our people, and the conscience of our Nation, vehemently opposed Turkey's aggression and our administration's disregard for the rule of law, American and international law in its unjustified tilt toward Turkey. The Congress strongly advocated then, and many of its Members continue to do so today, although all should, that it is in the best interest of the United States for our country to adhere to the rule of law.

Nearly 11 years have passed, and intransigent Turkey's expansionist policies, with the intransigent policies of our administration to continue disregarding the rule of law, have brought complete disarray to the southern flank of the NATO alliance, and have made Cyprus a divided country with Turkey's armed occupation of 37 percent of it.

These policies have estranged one of our staunchest allies, Greece, and this, Mr. Chairman, is because of the administration's persistence has worn down our legislators to the point that at least some, and I hope not most, are ready to go along and punish the victim rather than help it.

Mr. Chairman, over the years, the administration, with the consent of Congress, first removed the partial arms embargo to Turkey, then provided larger and larger amounts of aid to Turkey with no requirements on the settlement of Cyprus. It has acquiesced on the fate of five missing Americans taken prisoner by Turkey. It has acquiesced on the abominable human rights violations in Turkey and Cyprus. I refer you to exhibit 1 in our testimony. It has acquiesced on the refusal of Turkey to prevent access of Soviet power to the Mediterranean. It has acquiesced on Turkey's dealings with the Soviets. It has acquiesced on Turkey's refusal to assist us during the Iran and Lebanon crises. It has remained silent on the unfounded and absurd Turkish agreement in the Aegean Sea, and it has made no sincerely serious effort to require Turkey to retreat from its illegal occupation of Cyprus.

REDUCED AID TO GREECE AND TURKEY

Now, however, the administration is considering reducing the ratio of aid to Turkey and Greece under the guise "to send a message to the Greek Government." Mr. Chairman, will our Nation continue to subject the American taxpayer to pay the bill for the Turkish occupation of Cyprus, while Turkey, by her actions, defames the best traditions of the American people?

Will this subcommittee please explain to us, the American taxpayers, what has been achieved since the partial arms embargo was lifted in 1978? How do you, Mr. Chairman, explain the fact that the Turkish position has hardened even more since the lifting of the embargo?

Can any member of the subcommittee explain to us how and why should Turkey comply with the rule of law and international treaties and agreements now that she has discovered that our country, America, the greatest nation on earth, rewards her for her illegal actions?

We need answers to these questions, Mr. Chairman, and we need them now for the best interest of our United States. We do not want to return here year after year to fight for retention of 7-to-10 ratio of aid for Greece and Turkey so that we may be made to feel that we accomplished something, whereas in reality all we have accomplished is to retain the status quo in favor of Turkey and its continuing occupation of Cyprus.

Mr. Chairman, the U.S. Congress should return our Nation to the sacred covenant of its constitutionality as established and revered by the Founding Fathers. We strongly argue that in carrying out your constitutional responsibility, that Congress legislate our administration back to the path of the rule of law.

In conclusion, Mr. Chairman, for the record, and as our vice chairman indicated in a recent testimony, Mr. Snyder submitted testimony containing several inaccuracies. As a matter of fact, in a very quick review that I just made, there are 13 of them, which I will point out to you if you wish and have the time for it.

I want to thank you for the opportunity to be with you today. I thank your staff for the assistance that they have given us over the years.

Thank you.

THIRTEEN POINTS

Senator KASTEN. We thank you for your testimony.

Clearly, these are difficult times. I mentioned to one of the previous witnesses that because of the interest that all of us have in the problems of Cyprus, we visited Cyprus, met with people on both sides. At that point, it was December, and I was hopeful that the U.N. negotiations would be more fruitful than it now has turned out that they are. Nevertheless, we will all work together, and we appreciate your testimony here today.

I would ask if the 13 points that you refer to are not in your statement that you submit those 13 points to us, for the record.

Mr. LOMIS. I will do that, sir, because I just read them very quickly as we received the testimony a few minutes ago.

I want to thank you for thinking that the Cyprus problem is solvable, and I hope that some pressure will be put on the administration to do it. As Mr. Snyder pointed out, there has got to be some pressure.

Senator KASTEN. Thank you very much for your testimony.

[The prepared statement of Mr. Lomis follows:]

PREPARED STATEMENT OF PROFESSOR DEAN C. LOMIS

AMERICAN HELLENIC INSTITUTE PUBLIC AFFAIRS COMMITTEE, INC.

Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to appear before the Subcommittee on behalf of the American Hellenic Institute Public Affairs Committee, Inc. and present views on the foreign aid appropriation legislation for fiscal year 1986 affecting Greece, Turkey and Cyprus.

The Administration proposes $939 million in military and economic aid for Turkey and for Greece $500 million FMS military sales and $3 million for Cyprus. We oppose this proposal as contrary to the best interests of the United States.

We do not believe that friendships can be bought, and history attests to that. With the large budget deficits we are facing, and at a time when we are cutting funds on important social programs in our country and our own people suffer, we support foreign aid at the lowest possible level and only if after careful deliberation and scrutiny we are convinced that it indeed serves vital interests.

Regarding Turkey we recommend a reduction to the level of earlier years namely a total of $150 million in military and economic aid and all of it subject to an agreed Cyprus settlement based on majority rule with full minority rights guaranteed and all Turkish troops and colonists removed from Cyprus.

With regard to Greece, Turkey and Cyprus the fundamental national security goal of our policy, as we see it, must be to promote peace and stability in the badly shaken Eastern Mediterranean and to strengthen NATO. This implies that aid given to Greece, Turkey and Cyprus must attempt to accomplish two things: a) help bring about a just and lasting settlement of the Cyprus problem and b) provide for the maintenance of the balance of power in the Aegean. We submit, Mr. Chairman, that the Administration's proposal promotes exactly the opposite. It ignores the dangerous situation in Cyprus and promotes friction between Greece and Turkey, hence weakens NATO.

The generous foreign assistance Turkey has been receiving from the United States, particularly since the passage in 1978 of legislation lifting the partial arms embargo, has been given with the clear legislatively stipulated understanding that Turkey would cooperate fully in efforts to bring about a lasting solution to the Cyprus problem. To date Turkey has not been forthcoming.

As we have said repeatedly over the past ten years we believe it is essential, if progress is to be made on the Cyprus issue and Greek-Turkish relations generally, that aid to Turkey be conditioned on tangible and verifiable progress on Cyprus.

In early January of this year the newspapers carried reports that the negotiations between President Kyprianou and the Turkish Cypriot leader Rauf Denktash, under the auspices of Secretary-General Perez de Cuellar, had narrowed the issues dramatically and that a settlement was near. Another negotiating meeting between the parties was scheduled for January 17-18, 1985. Unfortunately, Mr. Denktash once again dashed hopes with his intransigence.

President Reagan aided these negotiations by his letter to General Everen in late November 1984. Subsequently Denktash made the first substantive move in ten years by offering to reduce the area under Turkish occupation from 37-38% to 29% (and to drop his demands for absolute veto powers and a rotating presidency). We believe that President Reagan's letter was prompted in substantial part by the bipartisan concerns expressed in the Congress and by the close vote in the Senate on conditioning aid to Turkey. The vote was 51 to 46 on the Pressler/Biden amendment.

We believe it is essential to furthering U.S. interests in getting the negotiations back on track and completed, that this Committee and the full House link aid to Turkey to a Cyprus settlement.

The conditions precedent on all military and economic aid to Turkey that we recommend for consideration by the Subcommittee include the following:

1) Resumption of good faith negotiations by the Turkish Cypriots and a settlement of the Cyprus issue;

2) Turkey has returned the cities of Famagusta/Varosha and Morphou to the Government of Cyprus under UN auspices for the immediate resettlement of the refugees. The area should be specifically delineated as that inhabited by Greek Cypriots prior to Turkey's invasion in 1974;

3) Turkey has withdrawn all its military forces on Cyprus which are in excess of those permitted by the 1960 Treaty of Alliance;

4) Turkey has withdrawn all Turkish colonists (estimated at over 40,000) from Cyprus;

5) Turkey has withdrawn its recognition of the so-called "Turkish Republic of Northern Cyprus" and has persuaded the Turkish Cypriots, in accordance with Security Council Resolution 541, to revoke their illegal action;

6) Turkey is in compliance in occupied Cyprus and in Turkey with international standards of human rights as expressed in the Helsinki Accords and other international conventions;

7) Turkey has agreed to cooperate with the United Nations and the International Red Cross in connection with the estimated 1614 missing Greek Cypriots and 5 missing Americans.

The continuing tilt of the United States toward Turkey, which is the cause of the difficulties in US-Greek relations today, is clearly reflected in the aid amounts proposed for Turkey and in our reluctance to require Turkey to comply with the rule of law and international treaties.

We are deeply concerned about the escalating arms race in the Aegean. Greece and Turkey are unmistakably drifting toward a military confrontation. Unless the United States adopts an even-handed policy toward Greece and Turkey, a conflict, Mr. Chairman, is inevitable. I am sure we all understand the catastrophic consequences of a Greco-Turkish clash. At stake is nothing less than the integrity and prestige and the very existence of NATO.

An absolute requirement to an even-handed policy is the scrupulous maintenance of the balance of power in the Aegean at the lowest possible level. It is more important for us to have Greece and Turkey at peace in NATO with scaled-down armed forces than armed to the teeth but ready to use their military to fight with each other. Moreover, both countries face serious economic and social problems and it could be in their best interest to devote more of their available resources to the solution of these problems than to acquiring disproportinately large arsenals. Greece, Mr. Chairman, has been spending over 7% of its GNP on defense expenditures over the last three years, which is the highest among NATO countries, including the United States.

To maintain the balance of power, especially in view of Turkey's numerical superiority, the United States must provide equal aid, on at least a 1:1 basis, both quantitatively and qualitatively to Greece and Turkey. The 7:10 ratio the Congress has followed in the past was a good effort to improve on the inequitable Administration proposals, but did not achieve balance of power. Greece should receive $500 million and Turkey $150 million (with conditions), so that Greece might catch up to the disparity of earlier years.

The Turkish threat to Greece is not the figment of the imagination of the present Greek government. The continuing occupation of 38% of Cyprus; statements by Turkish government officials over the past twelve years; the totally unreasonable and obstructionist Turkish NATO policy, which prevents the resolution of residual problems and the smooth operation of the Southeast wing of the Alliance; and the deployment of the Turkish army a substantial portion of which is poised against Greece, are indisputable evidence of Turkey's aggressive designs against Greece.

It is imperative, Mr. Chairman, that we clearly understand and appreciate the very real danger we create to Greek security, hence to peace in the area, by over-arming Turkey. This is a crucial issue. If the Congress can understand the concerns of Israel when we provide excessive military equipment to friendly Arab states, like Saudi Arabia, it should also be able to understand the concern of Greece when we over-arm Turkey. This Subcommittee, then, can play a central role in resolving the outstanding issues among Greece, Turkey and Cyprus and meet its constitutional and partnership role in the formulation of United States foreign policy by establishing an even-handed approach to the foreign aid for fiscal year 1986.

With regard to Cyprus, we recommend that the proposed amount of $3 million be increased to $15 million, as was done last year and that no part of these funds are to be used by or earmarked for the Turkish Cypriots until they revoke their illegal action of November 15, 1983. Consideration should be given to an additional amount of $10 million to the government of Cyprus for general purposes in view of the significant assistance Cyprus has given to the United States in the area in the past three years.

The United States bears considerable responsibility for the present plight of the Cypriot people. We have armed and trained the aggressor and we took no steps to stop or limit the invasion of their country. As long as U.S.-armed Turkish troops remain on Cyprus the United States has an obligation to provide assistance to Cyprus.

We are deeply concerned, Mr. Chairman, that even if the Subcommittee adopts our suggestions, the balance of power, hence the hope for peace in the area, may still be jeopardized by large amounts of aid which may be provided to Turkey under the terms of the DECA agreement being currently renegotiated with Turkey. Any renewed agreement with Turkey should, in the interests of the United States, be subject to the conditions referred to earlier.

I would like to comment now, Mr. Chairman, on several matters relevant to the subject of these Hearings.

Turkish respect, or better yet lack of respect, and more correctly: disrespect -- for human rights is a sore spot in the eyes of the free world and an embarrassment to the United States. Last summer an organization of Turkish workers in Germany rejected efforts to be repatriated back to Turkey on the grounds that they would face "lack of human rights and security in Turkey." Latest available figures show that nearly 1,000 Turks have sought refuge and have been granted asylum in ... of all places ... Greece, fleeing from Turkish conditions. Yet, our Administration believes that Turkey will return to real democracy!

During the Session on Human Rights at the State Department Foreign Policy Conference on April 6 and 7, 1983, the officer lecturing from "background notes" pondered about what do we do with Turkey to return that government to democratic rule, given the fact that Turkey's bad history on human rights is well known? Turkey's miserable human rights record, even against her own minorities of Kurds, Greeks and Jews, and against political adversaries and dissidents, is well documented and condemned in the Amnesty International Report of May, 1984, and clearly documented with calls of concern in the October, 1983 United States Congress Staff Report on the Human Rights Situation in Turkey. The article "Daylight Express," in the February 6, 1984 issue of New York magazine is an eye opener, substantiating everything depicted in the movie Midnight Express.

Turkey's genocide against the Armenian community in 1897 and then Turkey's "final solution" during the period 1915-23 deserves the same world-wide exposure as Hitler's "final solution."

As recently as Sunday, March 24, 1985, the Washington Post reported that "playwrights Arthur Miller and Harold Pinter were censored from the pages of the Turkish press ... after having given a press conference ... in which they were strongly critical of the human rights record of this NATO ally" (Turkey). Pinter said that he and Miller were convinced that there is systematic torture in Turkey. He said, "From the information we have received since we have been in Turkey, which we regard as authentic, we believe that gross violations of the human spirit through physical torture is a present fact in Turkey. Our conclusion is that torture, despite the protestations and denials, is in fact widespread and systematic in military prisons and police stations in Turkey." The authors said they will prepare a report and submit it to the International PEN Club, and to Amnesty International, as well as the British Foreign Office and to the State Department. (See Exhibit 1 attached).

It has been widely reported that a giant airport is under construction at Lefkoniko in occupied Cyprus, the cost of which is estimated at hundreds of millions of dollars. There is a speculation that the airport is to be used by the United States

Rapid Deployment Force. I am sure, Mr. Chairman, that the gravity of the implications for U.S. prestige, were this report to be true, is clear to you and the Members of this Subcommittee. As one author put it, "The use of American aid money to build an unnecessary airport on stolen territory administered by an occupation that is internationally condemned, makes pitiful nonsense of the State Department's claims to be neutral in Cyprus." We, therefore, ask that a congressional investigation be immediately initiated to determine the veracity of this report and if indeed an airport is being built at Lefkoniko with U.S. aid funds all aid to Turkey must be immediately suspended.

Since 1978, Mr. Chairman, we have repeatedly warned that unless the United States changes its course and adopts a truly balanced policy toward Greece and Turkey, future Greek governments would be much tougher to deal with.

Mr. Papandreou, Mr. Chairman, is neither the problem nor the cause of the problem in the strained Greek-American relations. The cause is Turkey and the problem, as we said before, is the U.S. tilt toward Turkey, or, to put it more bluntly, the anti-Greek policy we have pursued over the past ten years. Mr. Papandreou reflects the frustrations of the Greek people over the unjust U.S. policy toward Greece. We consider this to be a most disturbing and ominous development. Indeed, it seems that only the immense reservoir of genuine good will and admiration the Greek people have for our country and our people has prevented a complete break-down in US-Greek relations.

The situation in the eastern Mediterranean, Mr. Chairman, has reached the critical stage. The United States seems to react to events rather than anticipate problems and prevent them. Time, however, is running out on us. It is urgent that positive action be taken before disaster strikes.

Forty-five years ago Greece stood alone on the European continent fighting for all of us, first against fascist Italy and later against the combined Axis forces of Italy and Germany. The Greek resistance forced Hitler to postpone his attack on the Soviet Union by two whole months. This delay prevented the nazis from capturing Moscow and Leningrad before the onset of the Russian winter, and as Field Marshall von Runstedt said at the Nuremberg trial, most likely changed the course of World War II.

This was also the time, Mr. Chairman, when the Turks refused to honor their obligations under the Treaty of Mutual Assistance between Britain, France and Turkey, in similar manner, hours before the German invasion abrogated their Mutual Defense Alliance with Greece, signed a Treaty of Non-Aggression with Germany and supplied the nazi war machine with chromium without which the nazis could not continue the war. At the same time, Mr. Chairman, as reported in the Twenty-third Report to Congress on Lend-Lease Operations, Turkey received since February, 1942, for the duration of the war, $27 million in "lend-lease aid" to enter the war against the Axis power, which she refused to do, appropriately earning the title The Evasive Neutral, Professor Frank Weber's 1979 book.

This is the same Turkey, Mr. Chairman, who is the third largest recipient of U.S. aid at over $10 billion, and the largest recipient of Soviet aid outside the Soviet bloc -- with the recent "non-aggression and expanded trade agreement" of $6 billion -- also at over $10 billion. And this is the same Turkey which abrogates the Montreux Convention of 1936, having allowed three Soviet aircraft carriers: the Kiev, the Novorosiisk and the Moskva to sail into the Mediterranean, and whose presence with their fighter-bomber aircraft and helicopters pose a formidable threat to the U.S. Mediterranean Fleet. And this is the same Turkey Mr. Chairman, who denied us use of the base at Diyabarkir in eastern Turkey for an operation to rescue our hostages in Teheran. And this is the same Turkey who refused repeated requests by our Department of State to install eleven transmitters in Turkey to improve broadcast of programs by Radio Free Europe, Radio Liberty and the Voice of America to eastern European countries. And this is the same Turkey whose abominable human rights violations are a disgrace to humanity, and to the United States and the free world. And this is the same Turkey, Mr. Chairman, whose deplorable practices and illegal actions we overlook as a panacea to our national security and interests. Turkey's track record is clear Mr. Chairman. As Turkey's Foreign Minister said in World War II: "Turkey will not fight for the blue eyes of Poland," neither will Turkey go to war now to save America's integrity and the free world's freedom, unless attacked directly, and I am thoroughly convinced that the Soviets are much too intelligent to bring this unto themselves by attempting to overrun Turkey rather than conveniently bypass it.

Mr. Chairman, I am confident that this Subcommittee and the Congress of the United States will respond positively to the legitimate security concerns of the people of Greece by supporting a policy of strict balance of power in the Aegean and justice in Cyprus. Conditioning all aid to Turkey until there is a Cyprus settlement based on majority rule with full minority rights guaranteed and all Turkish troops and colonists removed from Cyprus is in the best interests of the United States and I must add, in the best interest of the Turkish people too.

Thank you Mr. Chairman and members of the Subcommittee.

"EXHIBIT 1"

WASHINGTON POST SUNDAY, MARCH 24, 1985

Turkey Censors Blast On Rights by 2 Authors

Miller, Pinter Say Torture a Fact in Turkey

By Mustafa Gursel
Special to The Washington Post

ISTANBUL, March 23—Playwrights Arthur Miller and Harold Pinter were censored from the pages of the Turkish press today after having given a press conference here in which they were strongly critical of the human rights record of this NATO ally.

The two vice presidents of the International PEN Club, a worldwide organization that promotes the human rights of artists and writers, came to Turkey last Sunday on a fact-finding mission. During their five-day stay, they spoke with more than 100 Turkish intellectuals, with former prison inmates, politicians and diplomats. As the playwrights put it, "the International PEN is concerned with the dignity of its members throughout the world."

At a press conference wrapping up their visit here Friday, Miller said, "It is almost impossible to discuss certain questions in the press here," as if to foreshadow the ban on their press conference that was handed down by the local martial law government several hours later. The two authors left Turkey before learning of the censorship.

Pinter, a Briton, said that they both were convinced that there is systematic torture in Turkey. He said, "From the information we have received since we have been in Turkey, which we regard as authentic, we believe that gross violations of the human spirit through physical torture is a present fact in Turkey. Our conclusion is that torture, despite the protestations and denials, is in fact widespread and systematic in military prisons and police stations in Turkey." He concluded by stating that he and Miller "naturally find this a deplorable state of affairs."

Miller said, "Only the pure at heart need no lawyers," quoting the judge in his play "The Crucible." He drew a parallel between 17th century witch hunts in Salem, Mass., and present-day Turkey.

Miller explained, "At a certain time in history the court permitted what was called 'spectral evidence,' which meant that it was not necessary . . . to prove that an accused person had committed an action. It was only necessary to prove that he had thought of it." Miller said that in Turkey "today people are brought into prisons on the basis of what they are alleged to be thinking."

Pinter, sitting on a platform where years ago his play "The Dumbwaiter" had been staged, praised the Turkish people for their dignity.

He said, "I would like to observe that both Mr. Miller and myself were deeply moved and impressed by the intelligence, the grace and the dignity of so many of the people we have met in Turkey, those who have suffered so much and continue to do so."

Although general elections were held in 1983 in Turkey and there is a democratically elected civilian government, many of the cases that were instigated by the military when it came to power on Sept. 12, 1980, continue to be prosecuted, and people remain in jail because of their beliefs and ideas.

After the military president, Gen. Kenan Evren, came to power following a period of political violence and general instability, tight restrictions were instituted over the press, universities and trade unions. Intellectuals, who periodically have been politically influential through Turkey's turbulent history, were tried for criticizing human rights abuses and calling for an amnesty for political prisoners. Such criticism is a crime under the current constitution of Turkey.

The martial law command was able to ban the comments made at the press conference from appearing in the Turkish press because there is still martial law in a number of Turkish cities, including Istanbul.

The liberal government of Prime Minister Turgut Ozal has been very careful in its relationship with the military, and he has been taking his time in lifting martial law entirely.

However, the government was embarrassed by the remarks of Miller and Pinter, especially since they were made a few days before the visit of Ozal to Washington to meet with President Reagan. The issue of human rights in Turkey has been on the agenda of the European Parliament and in European capitals since the 1980 coup.

The authors said they will prepare a report based on their talks here during the next few days and will submit it to the International PEN Club and Amnesty International. Pinter said the organization intends to present the report to the British Foreign Office and to the State Department.

U.S. Ambassador Robert Strausz-Hupe also was upset by the authors' comments. At an official reception in Ankara, Strausz-Hupe raised his voice at one point and told Pinter, "Sir, don't forget that you are a guest in my house." The argument started when Miller said, "There is either democracy or none of it."

NATO COUNTRY DEFENSE EXPENDITURES

BY PERCENT OF GROSS DOMESTIC PRODUCT

Country	1981	1982	1983
Belgium	3.5	3.4	3.4
Britain	4.9	5.1	5.6
Canada	1.8	2.1	2.1
Denmark	2.5	2.5	not available
France	4.2	4.2	4.2
Germany	3.4	3.4	3.4
Greece	7.0	7.0	7.1
Italy	2.5	2.6	2.8
Luxemburg	1.2	1.3	1.3
Netherlands	3.2	3.2	3.3
Norway	2.9	3.0	3.1
Portugal	3.5	3.4	3.4
Turkey	4.9	5.2	4.9
U.S.A.	5.8	6.5	6.9

U.S. DEFENSE COMMITTEE

STATEMENT OF HENRY L. WALTHER, EXECUTIVE VICE PRESIDENT, UNITED STATES DEFENSE COMMITTEE

ACTIVITIES OF COMMITTEE

Senator KASTEN. Our next witness will be Mr. Henry Walther, the executive vice president of the U.S. Defense Committee. Mr. Walther, it was a pleasure seeing you before the Defense Subcommittee yesterday.

Mr. WALTHER. Yes, Mr. Chairman, and last week we were able to win on MX, too, at least so far.

Good morning, Senator. Thank you for allowing me to testify before the subcommittee.

My name is Henry Walther, and I am the executive vice president of the United States Defense Committee.

The United States Defense Committee is a public interest organization dedicated to a strong national defense and foreign policy.

We are an organization of over 130,000 Americans who come from all walks of life—machinists, farmers, small entrepreneur, doctors, lawyers, active and retired service personnel.

What binds all of these people together is a concern that America's defenses are not what they should be, and that America's foreign policy has been too timid in reaction to Soviet adventurism around the world. What is necessary to maintain the defense of this Nation, of course, involves action on many levels.

ARMED FORCES FUNDING

The most obvious to most Americans is the funding of our Armed Forces and the conventional and strategic weapons needed to deter an outright attack by the Soviets or other enemies of the United States. On other levels, we must be sure that our allies have the economic and military assistance necessary to defend themselves from both internal and external opposition.

These countries often sit atop rich storehouses of minerals and other resources necessary to our own well-being and the well-being of our allies. Other countries are near nautical chokepoints that control access to these goods.

In the strategic struggle that the Soviet Union has forced upon the United States, we must be sure of access to raw material and unrestricted transport. The gas lines which occurred because of the oil embargo in the early 1970's show how quickly the disrupting of the supply of vital goods such as oil can affect our national life.

To avoid disruptions, and to expand liberty across the globe, the United States must pay close attention to her allies, the United States must move forcefully to counter the Soviets whenever they move to affect the interests of the United States.

Our cooperation with and support of allies in the Pacific basin, which is the fastest growing economic powerhouse in the world, must be maintained. Pakistan, Oman, and other traditional American allies in West Asia also deserve our support.

In fact, it is in our own backyard, and the people there have spent several years trying to fight off the forces of Communist expansion. It is, of course, Central America. Our allies there deserve all the economic and military support this subcommittee can provide.

Without our support these important allies will most probably succumb to the Soviet/Cuban onslaught against them. Then this subcommittee would have to deal with this problem in another way because of the millions of refugees that would flood across our borders.

EL SALVADOR

El Salvador still needs more military aid to effectively counter and defeat the Soviet- and Cuban-backed guerrillas. That means an upgrading of the weapons used by the Salvadoran army including an expansion of their helicopter fleet with more Hughes-530 helicopters with multiple barrel guns capable of firing 5,000 to 6,000 rounds in a minute. These helicopters are crucial to provide cover for troops rushed by support helicopters to repel rebel assaults against villages, dams, power stations, and other guerrilla targets.

It is equally important to avoid the foot dragging of the past which resulted in a pattern of stop-and-go funding that has hamstrung the efforts of the Salvadoran commanders. In the past, Congress' stop-and-go funding had the effect of tying down the Salvadoran army and frustrated attempts to aggressively hunt down and eliminate guerrilla forces.

GRENADA

In Grenada, America was able to win a swift victory by applying overwhelming force resulting in destruction of the Communist forces with a minimum loss of life.

Congress must allow the stockpile of supplies to El Salvador to become large enough to guarantee both the needs of the Salvadorn army and the time required to be sent on a cost effective basis.

HONDURAS

Military aid to Honduras is also important to bolster their armed forces against the threat of Nicaraguan military action. The Communist buildup in Nicaragua includes plans to field a 250,000-man army fighting force that would dwarf the combined armies of all the pro-American governments in Central America.

Five new airfields are being constructed by the Communists in Nicaragua that could accommodate the most advanced Soviet/Cuban jetfighters. In fact, just outside Managua, the Nicaraguan capital, Cubans are constructing the largest airfield in Central America with a runway long enough to accommodate even the largest Soviet fighter/bombers and troop transports.

It is important for this subcommittee to remember that just as in Indochina when the fall of South Vietnam sealed the fate of Laos and Cambodia, the loss of El Salvador or Honduras would also sweep away other Central American governments, and then on a scale that would dwarf the flow of refugees from Indochina, millions of Central Americans would begin their trek north to the Rio Grande, and it would not be boat people, but it would be foot people.

The Office of the Coordinator of U.S. Refugee Affairs has stated that if Central America and Mexico fall, the United States would be faced with over 10 million refugees flooding across the Rio Grande.

With the yearly cost of providing for each refugee at $4,500, the cost would be over $40 billion per year. If the same percent of the population flee Central America and Mexico as have fled Afghanistan since the Communist takeover, 20 million refugees could pour into the United States costing $80 billion per year.

MEXICO

Should the Mexican Government also be overthrown because of the turmoil caused by millions of refugees pouring north to the Rio Grande, then the refugee swell would turn into a tidal wave sending 10 million displaced persons across our border. Nothing would please the Soviets more than to overthrow the pro-American governments of Central America and precipitate a crisis that would disrupt our society and divert our resources from the larger international scene.

If Mexico does fall, then we would have a hostile enemy on our border, one capable of stationing a million troops from Texas to California. Fortifying the United States/Mexican border would cost a fortune as first troops and then support facilities are spread across the 1,900-mile border with Mexico. That cost would be a minimum of $50 billion a year or more.

Thus, by failing to stop Communist aggression now, Congress will be in effect handing the American people a tax bill of over $100 billion a year, that would stretch out into the foreseeable future.

The Soviets would also realize a strategic victory tying down American troops and eroding America's ability to counter the Soviets in Europe, the Middle East, and Asia.

I can see that I am out of time.

Senator KASTEN. Please summarize your statement.

Mr. WALTHER. Supporting the people of Central America will help the forces of freedom, not only there but worldwide. Often what this subcommittee decides can determine what our foreign policy successes or crises will be in the future. You are on the cutting edge of how America shall counter the Soviets.

On behalf of the members of my committee, I ask that you do everything you can to counter the Soviets, and make sure that America continues to be a beacon of hope for people seeking liberty everywhere in the world.

Senator KASTEN. Thank you very much for your testimony. I am sure that as you have followed the action of this subcommittee over the past couple of years, we share your concerns, particularly your concerns with regard to Central America.

Mr. **Walther**. I only wish we could get as much action out of the House side as we are able to get in the Senate.

[The prepared statement of Mr. Walther follows:]

UNITED STATES
DEFENSE COMMITTEE

PREPARED STATEMENT OF HENRY L. WALTHER

EXECUTIVE VICE-PRESIDENT

Good morning:

Thank you for allowing me to testify before this subcommittee.

My name is Henry Walther and I am the Executive Vice-President of the United States Defense Committee.

The United States Defense Committee is a public interest organization dedicated to a strong national defense and foreign policy.

We are an organization of over 130,000 Americans who come from all walks of life; machinists, farmers, small entrepreneurs, doctors, lawyers, active and retired service personnel.

What binds all these people together is a concern that America's defenses are not what they should be, and that America's foreign policy has been too timid in reaction to Soviet adventurism around the world.

What is necessary to maintain the defense of this nation, of course, involves action on many levels.

The most obvious to most Americans is the funding of our Armed Forces and the conventional and strategic weapons needed to deter an outright attack by the Soviets or other enemies of the United States.

On other levels we must be sure that our allies have the economic and military assistance necessary to defend themselves from both internal and external opposition.

The combat to secure America's vital interests in the face of the Soviet threat is a life and death struggle that can shift the fortunes of many regions around the world and may well determine whether the U.S. survives as a free and independent nation.

In the nuclear age, when the United States and Soviets hold each other virtually hostage, America's tactical and strategic struggle lies not in direct military conflict but in building up our allies, and letting our strategically placed friends defend themselves against Soviet aggression.

These countries often sit atop rich storehouses of minerals and other resources necessary to our own well being and the well being of our allies.

Other countries are near nautical "choke points" that control access to these goods.

In the strategic struggle that the Soviet Union has forced upon the United States, we must be sure of access to raw material and unrestricted transport.

The gas lines which occurred because of the oil embargo in the early 1970's, show how quickly the disrupting the supply of a vital good, such as oil, can affect our national life.

To avoid disruptions, and to expand liberty across the globe, the United States must pay close attention to her allies, the United States must move forcefully to counter the Soviets whenever they move to affect the interests of the United States.

Our cooperation with and support of allies in the Pacific Basin, which is the fastest growing economic powerhouse in the world, must be maintained.

Pakistan, Oman and other traditional American allies in West Asia also deserve our support.

There is one region, however, that deserves our special attention.

In fact, it is in our own backyard, and the people there have spent several years trying to fight off the forces of Communist expansion.

It is, of course, Central America.

Our allies there deserve all the military and economic support this subcommittee can provide.

Without our support these important allies will most probably succumb to the Soviet/Cuban onslaught against them.

Then this subcommittee would have to deal with this problem in another way because of the millions of refugees that would flood across our borders.

Soviet involvement in the Americas has not been haphazard or random.

Since the consolidation of the Bolshevik revolution there has been an ongoing effort to undermine pro-American governments in the Americas.

Remember that Leon Trotsky, who consolidated Bolshevik gains after World War I and who was Soviet Minister of Defense, had a choice of so-called "promising" countries to which to flee after the rise of Stalin, but chose Mexico.

Castro spent years of exile in Mexico, before he returned to conquer Cuba, and still regards it as a rich target for the export of revolution.

Vladimir Lenin, himself, over half a century ago called for a strategy against the United States that would use countries south of our border to undermine America's well being.

It is a long-term strategy that focuses on the build-up of Communist forces, while at the same time isolating America from the raw materials needed for economic production, until ultimately America is weakened enough to fall into the Communist basket like an "overripe fruit".

Cuban proxy troops and the build-up of Communist forces throughout Central America are the contemporary tools used by the Soviets in their strategy to isolate and weaken the United States.

In fact, almost everywhere in Central America and the Caribbean where there is conflict, one can see the involvement of Fidel Castro and his Soviet advisors.

You will remember that Castro tried to undermine Jamaica, until the pro-American government expelled the Cuban Ambassador for plotting to pull Jamaica into the Soviet/Cuban orbit.

In Grenada, Castro succeeded in turning a democracy into a Communist dictatorship until American forces intervened.

In Nicaragua, there are over 10,000 Cuban personnel who are turning the country into a Soviet colony.

Cuban personnel train the army, run the secret police, maintain military equipment and propagandize the population with Communist rhetoric.

In all of his activities, Castro, like his Soviet master, has both a singleminded purpose and strategy; to undermine and isolate the United States.

We can counter the Soviets, however, but it requires our continued resolve to support our allies.

In Central America we need especially to stand behind our friends in El Salvador, Costa Rica and Honduras.

El Salvador still needs more military aid to effectively counter and defeat the Soviet and Cuban backed guerrillas.

That means an upgrading of the weapons used by the Salvadoran army including an expansion of their helicopter fleet with more Hughes 500 helicopters with multiple barrel guns capable of firing 5,000 to 6,000 rounds a minute.

These helicopters are crucial to provide cover for troops rushed by support helicopters to repel rebel assaults against villages, dams, power stations and other guerrilla targets.

It is equally important to avoid the foot dragging of the past which resulted in a pattern of stop-and-go funding that has hamstrung the efforts of Salvadoran commanders.

In the past Congress' stop-and-go funding had the effect of tying down the Salvadoran army, and frustrated attempts to aggressively hunt down and eliminate guerrilla forces.

Commanders, after all, must think twice about extending their forces too far from major bases if ammunition or other vital supplies are in short supply.

The tactics of small unit maneuvers and patrols that are most effective in guerrilla warfare cannot be carried out if the troops face the possibility of running out of food, water, or ammunition behind enemy lines.

The past stop-and-go funding by Congress also frustrated long-term military planning, and forced the Salvadoran army to adopt many of the defense tactics that make military victories difficult if not impossible.

By staying in garrisoned towns, rather than going into the field, the Salvadoran army saved ammunition but lost control of much of the countryside and the farming areas to the Communists.

By refusing to do enough to let the Salvadorans win, Congress has also prolonged the suffering of the people, and ignored the lessons of Grenada.

In Grenada, America was able to win a swift victory by applying overwhelming force resulting in destruction of the Communist forces with minimum loss of life.

Congressional foot dragging on aid has in past years not only disrupted military resupply, but increased the cost of shipping the aid.

By waiting until the last moment, or by not acting at all, the aid for El Salvador has had to be transported on an emergency basis by air rather than the more cost effective ship transport.

The cost of rushing down supplies has cut into the amount of supplies that have been sent.

Thus by not acting in time, Congress has actually reduced the amount of aid rendered.

Congress must allow the stockpile of supplies in El Salvador to become large enough to guarantee both the needs of the Salvadoran army and the time required to be sent on a cost effective basis.

In previous years, some elements in Congress have been able to claim that aid has been reaching El Salvador, while knowing that their delaying tactics have effectively reduced what little aid was approved.

Military aid to Honduras is also important to bolster their armed forces against the threat of Nicaraguan military action.

The Communist build-up in Nicaragua includes plans to field a 250,000 man army fighting force that would dwarf the combined armies of all the pro-American governments in Central America.

Through the delivery of thousands of troop transports the Soviet-backed junta is building the capability to launch blitzkriegs that could reach from Honduras to the Panama Canal.

Soviet supplied tank battalions backed up by long-range howitzers and anti-aircraft guns could slice through any pro-

American country including Honduras and Guatemala to the north, or Costa Rica and Panama, south, right down to the Canal.

Five new airfields are being constructed by the Communists in Nicaragua that could accommodate the most advanced Soviet/Cuban jet fighters.

In fact, just outside Managua, the Nicaraguan capitol, Cubans are constructing the largest airfield in Central America, with a runway long enough to accommodate even the largest Soviet fighter/bombers and troop transports.

This awesome display of power by the Cubans and Soviets to back up a puppet government that proclaims a "revolution without borders" is a direct threat to all of America's allies in Central America.

It is important for this Subcommittee to remember that just as in Indo-China when the fall of South Vietnam sealed the fate of Laos and Cambodia, the loss of El Salvador or Honduras would also sweep away other Central American governments.

And then on a scale that would dwarf the flow of refugees from Indo-China, millions of Central Americans would begin their trek north to the Rio Grande.

The Office of the Coordinator of U.S. Refugee Affairs has stated that if Central America and Mexico fall, the United States would be faced with over 10 million refugees flooding across the Rio Grande.

With the yearly cost of providing for each refugee at $4,500, the cost would be over $40 billion a year.

If the same percent of the population flee Central America and Mexico as have fled Afghanistan since the Communist takeover, 20 million refugees could pour into the U.S. costing $80 billion a year.

If just ten percent of the population of Central America flees a Communist takeover we could expect the following number of refugees:

Costa Rica	240,000
El Salvador	470,000
Guatemala	750,000
Honduras	410,000
Panama	200,000

Should the Mexican government also be overthrown because of the turmoil caused by millions of refugees pouring north to the Rio Grande, then the refugee swell would turn into a tidal wave, sending 10 million displaced persons across our border.

Nothing would please the Soviets more than to overthrow the pro-American governments in Central America and precipitate a crisis that would disrupt our society and divert our resources from the larger international scene.

If Mexico does fall, then we would have a hostile enemy on our border, one capable of stationing a million troops from Texas to California.

Fortifying the U.S./Mexican border would cost a fortune as first troops and then support facilities are spread across the 1,900 mile border with Mexico.

That cost could be a minimum $50 billion a year or more.

Thus, by failing to stop Communist aggression now, Congress will be in effect handing the American people a tax bill of over $100 billion a year, that would stretch out into the foreseeable future.

The Soviets would also realize a strategic victory tying down American troops and eroding America's ability to counter the Soviets in Europe, the Middle East and Asia.

Already, there is a major refugee problem in Central America that this Subcommittee should address.

And by addressing this problem we can help the pro-American forces in their fight against Communism.

I am talking about the tens of thousands of refugees in El Salvador and Honduras who have fled the fighting brought on by the Communist guerrillas in El Salvador and the thousands more in Costa Rica and Honduras who have fled the Communist tyranny in Nicaragua.

These are people who risked their lives in treks to free countries so that they can keep alive the hope of freedom.

By helping these refugees the United States will be sending a message to Moscow that we will not abandon free peoples anywhere on earth.

It would be a message of hope to the the millions of civilians who have fled the Soviets in Afghanistan, Cambodia and Laos.

Supporting these peoples will help the forces of freedom to regroup themselves and eventually return to their homes.

Few are positioned as well as this Subcommittee to make sure that our allies and the families of displaced pro-American forces receive full support.

Your jurisdiction over migration, military assistance, and refugee assistance should sensitize you to the threat we are facing in Central America.

Often what this subcommittee decides can determine what our foreign policy successes or crises will be in the future.

You are on the cutting edge of how America shall counter the Soviets.

The over 130,000 members of my Committee ask that you do everything you can to counter the Soviets, and make sure that America continues to be a beacon of hope for people seeking liberty everywhere in the world.

SUBCOMMITTEE RECESS

Senator KASTEN. We thank you for your testimony. The record will remain open for 1 week during which time additional statements may be inserted for the record from those who were unable to appear in person.

This concludes today's hearing. The subcommittee will stand in recess until Tuesday, April 2, when we will receive testimony from Mr. Peter McPherson, Administrator of the Agency for International Development.

[Whereupon, at 12:10 p.m., Wednesday, March 27, the subcommittee was recessed, to reconvene at 10 a.m., Tuesday, April 2, 1985.]

MATERIAL SUBMITTED SUBSEQUENT TO CONCLUSION OF HEARING

PREPARED STATEMENT OF ANTHROPOLOGY RESOURCE CENTER

ARC
anthropology · resource · center
P.O. Box 15266, Washington, D.C. 2003-0266

March 26, 1985

The Hon. Robert W. Kasten, Jr.
Chairman, Foreign Operations Subcommittee
Senate Committee on Appropriations
Washington, D.C. 20510

Dear Senator Kasten;

We are writing to commend this subcommittee on the interest it has taken in environmental protection and indigenous peoples' rights with regard to multilateral bank-funded development. As advocates of indigenous peoples' rights, we believe the multilateral banks can play an extremely important role in promoting development that is environmentally sound and that involves indigenous peoples in decisions over the use of their own resources. We strongly encourage the kind of concern with these issues shown recently by this and other congressional subcommittees.

Despite the existence, in many nations, of legislation intended to protect the land rights and cultural integrity of indigenous peoples, all too frequently such peoples have been victimized by internationally financed frontier colonization, road building, and hydroelectric projects. And despite increased awareness of these problems, as manifested for example by the World Bank's policy paper, Economic Development and Tribal Peoples (1981), indigenous peoples are frequently given short shrift in development planning. One recent example is the Interamerican Development Bank's approval of a project to continue paving the 364 highway in Rondonia and Acre, Brazil, without prior demarcation of indigenous lands and without prior preparation of plans to safeguard the indigenous peoples and the environment. This project threatens to broadcast environmental destruction and invasion of indigenous lands already prevalent in the World Bank's widely criticized adjacent Polonoroeste project. Indigenous rights organizations in the US and around the world welcome and would support any action from the US Congress to help the multilateral banks prevent such socially disruptive projects and increase the benefits to native communities from MDB financed development.

One example of congressional concern for the need for improved environmental planning and monitoring in multilateral projects was expressed in Senate Report No. 98-531, accompanying the 1985 foreign assistance bill, in the Committee on Appropriations' support for the testimony of witnesses from the Natural Resources Defense Council and the Environmental Policy Institute. Equally important was the Committee's indication that it intends to follow the progress of the banks in this area.

In this regard we strongly urge the Committee to support the recommendations of the House Subcommittee on International Development Institutions and Finance of the Committee on Banking, Finance, and Urban Affairs to the US Treasury and the US Executive Directors of the multilateral banks. These recommendations, which constitute a bipartisan US environmental policy for the MDBs, address many of the crucial environmental issues in development, and their implementation would constitute a major step toward sustainable development worldwide. We are convinced that continued congressional attention to the areas outlined in the recommendations will be central to their implementation.

In particular, we find the subcommittee's recommendations with regard to indigenous peoples to be sound and necessary measures, which will not only help to protect the rights of indigenous peoples, but also ultimately improve the quality of development projects. Recommendation no. 9, which calls for the participation of indigenous peoples' NGOs in planning and implementation of environmental protection in projects could, if put into practice, improve the quality of environmental protection by involving the people who have the most extensive knowledge of endangered ecosystems and the most interest in seeing them protected. Further, it could provide a first step toward more general involvement of local peoples in the development process. This would help to prevent the human destruction and economic waste that occurs when native peoples and minorities are marginalized by development, or find themselves in active opposition to it. Recommendation no. 16e, which proposes that the US not support projects threatening the land or natural resource base of indigenous peoples is a crucial and logical corollary to this position. The US Congress can make an important contribution to native peoples' efforts to gain economic and cultural autonomy, by urging the MDBs to institutionalize means for native peoples and their organizations to participate in project planning, design, implementation and evaluation.

Thank you for your attention to these concerns.

Sincerely,

Shelton Davis
Executive Director
Anthroppology Resource Center

David Maybury-Lewis
President
Cultural Survival

Stephan Schwartzman
Anthropologist
Anthropology Resource Center

Kenneth I. Taylor
Executive Director
Survival International, U.S.A.

Betty Mindlin, Ph.D
Pontificia Universidade Catolica
Sao Paulo, Brazil

United States Committee for
UNICEF
United Nations Children's Fund
A future for every child.

PREPARED STATEMENT OF HUGH DOWNS
CHAIRMAN, BOARD OF DIRECTORS
UNITED STATES COMMITTEE FOR UNICEF

March 27, 1985

Thank you, Mr. Chairman, for the opportunity to bring you up to date on the rather remarkable progress which is being made in the Child Survival Revolution and the role being played in it by the United Nations Children's Fund.

As you know, I am the Chairman of the Board of Directors of the United States Committee for UNICEF, serving with our Honorary Co-Chairmen, former Presidents Gerald Ford and Jimmy Carter, in this national citizens organization which was established in 1947 to inform and educate the American people and our Government on the work of the Children's Fund and the special needs of children worldwide, as well as to raise funds to address those needs. The U.S. Committee is proud to be supported by perhaps the largest volunteer network - 3 million Americans - of any humanitarian cause in the world, not to mention the countless millions more Americans who contribute each year through their direct donations, use of UNICEF greeting cards, Trick or Treating, and participation in fundraising activities.

Some things more important than fighting

Mr. Chairman, on Sunday, February 3rd, the fighting came to a stop in El Salvador. The guns were silent. The only "shots" fired in the country were those of syringes plunging into the bottoms of young children. The only tears were those shed by infants in their mothers' arms.

In government-controlled areas and those controlled by rebels, in secure areas and those which, only the day before, were ravaged by hostilities, the war of death gave way to a revolution for survival.

We are all, of course, saddened and angered by the fighting and killing which has ravaged El Salvador for so many years. But too few of us are aware that the civil war is the lessor battle from which the Salvadorians suffer. Last year, more Salvadorian children died from readily preventable diseases than the total of all deaths from the civil war and assasinations in 1984. This year, perhaps all sides in the Salvadorian tragedy are agreeing that there are some things more important than fighting. One of those things is children.

At the request of President Duarte, UNICEF's Executive Director James Grant assembled a partnership of UNICEF, the Pan American Health Organization/WHO (PAHO), experts from the Government of Colombia who had just completed their own National Immunization Campaign, the International Red Cross, the Catholic Church, the U.S. Agency for International Development, Boy Scouts and a host of others in an extraordinary effort to protect Salvadorian children against enemies which know no politics: measles, polio, tetanus, diptheria and whooping cough.

The Archbishop of El Salvador negotiated the arrangement for a de facto truce - a "national day of tranquility" on the first and second of the three National Immunization Days, February 3rd and March 3rd. Similar arrangments are being sought for the remaining day - April 21st. (As you know, three successive innoculations are required to fully vaccinate a child.) And when the first Day came, despite some last minute political concerns which were resolved by the Auxiliary Archbishop only hours before the vaccinating was to begin, peace reigned. Observers described it as the quietest day in memory.

And by the end of the Day, nearly 300,000 of El Salvador's 400,000 un-immunized young children had been innoculated against measles five insignificant diseases for anyone who has been vaccinated against them, but killer diseases for unprotected children suffering from malnutrition.

A Revolution underway

The El Salvador story is but one of the many I can tell you, Mr. Chairman, about the experience UNICEF is encountering as it helps to advance the "Child Survival Revolution" which it first articulated as a "possibility" only two years ago. Today, that Revolution is very much becoming a reality.

In the last year, the lives of an estimated half million children have been saved by oral rehydration therapy (ORT) - a revolutionary low-cost technique being used by an increasing percentage (15% last year) of the world's families to prevent and treat diarrheal dehydration, the biggest single killer of children in the modern world. The picture is rapidly changing as ORT begins to capture the imagination both of governments and people worldwide. Some 38 nations have begun large-scale production of oral rehydration salts and national ORT campaigns have been launched in more than 20 countries, including Pakistan, Thailand, the Philippines, Indonesia, Bangladesh, Laos, Viet Nam, Nigeria, Tanzania, the Gambia, Algeria, Egypt, Morocco, Colombia, Honduras, Haiti, Nicaragua, Jamaica, Brazil and Mexico. In the past year, UNICEF itself has supplied 78 nations with approximately 65 million packets of the salts and total annual production by developing countries themselves is now estimated at 100 million packets.

Previously, dehydration could only be treated intravenously by medical personnel in clinics. Now, it can be prevented orally by parents in the child's own home - using the mass-produced 10-cent packets of pre-packed salts or the even cheaper home-made solutions of sugar, salt and water. Either way, it is ORT's cheapness and its manageability-by-parents which holds out the hope of its being made universally available.

Given the mobilization of all possible resources to support parents in the use of this technique, UNICEF believes that ORT can become available to half the world's children within the next five years. And at that point, it will save the lives of some two million young children a year.

Oral rehydration and universal immunization are the two most dramatic in a range of low-cost methods now available for protecting the lives and health of children in low-income communities. As this Subcommittee knows, UNICEF has sought to draw world-wide attention to the fact that just four relatively simple and inexpensive methods - could now enable parents themselves to halve the rate of child deaths and save the lives of up to 20,000 children each day.

The good news is clearly that we are moving towards this possibility. United Nations Secretary-General Javier Perez de Cuellar has reported:

> "Evidence accumulates that these and other such simple low-cost interventions are being extended both by governments and community action groups, with the co-operation of the media and other forms of mass communication. In spite of the continuing and serious constraints of world recession, such action is proving possible and cost-effective."

Further examples of this Child Survival Revolution as it begins to go into action around the world include:

In Indonesia, the fifth largest nation in the world 400,000 volunteers in over 31,000 villages are managing a national program including the monthly growth monitoring of children, oral rehydration, the promotion of breast-feeding and safe weaning, the use of immunization services, and birth spacing. The aim is to reduce the overall infant death rate by approximately half - from 90 to less than 50 deaths per 1,000 live births - over the next fifteen years.

In Pakistan - where half a million children have been dying every year from diarrheal dehydration and 'immunizable' diseases alone - an Accelerated Health Programme has lifted the immunization rate from 5% to almost 50% produced 30 million packets of oral rehydration salts in 1984, and trained over 12,000 traditional birth attendants in low-cost techniques for protecting the lives and growth of Pakistan's children.

In India, the program for Integrated Child Development Services - using a similar range of low-cost techniques - is operating in one-fifth of India's 5,000 development 'blocks' and reaching almost 10 million young children.

In Baguio City, the Philippines, a campaign centered on growth monitoring, the promotion of breast-feeding, immunization, oral rehydration therapy, and birth spacing has helped to reduce infant and child death rates by 50% over the last five years.

Colombia last year achieved an historic first. Over 800,000 young children were immunized against five major diseases on each of three National Vaccination Days, one month apart, as part of a campaign to bring about a revolution in child survival. Never before had a major country fully immunized such a large proportion of its children against so many diseases in such a short period of three months.

In Brazil, 1984 saw two millicn under-twos vaccinated against measles, 1.5 million immunized against diptheria, whooping cough and tetanus, and almost all the nation's children protected against polio - through the mobilization of over 400,000 volunteers manning over 90,000 vaccination posts on two separate National Vaccination Days.

In Tanzania, a campaign based on oral rehydration therapy and growth monitoring has been launched as the first stage of a nutrition program which aims to halve the death rate among the 50,000 children living in 167 villages of Iringa province.

In Ethiopia, the city of Addis Ababa launched a campaign to halve its infant and child death rates over the next three years.

In Nigeria, a campaign has just been launched to try to repeat on a national scale the successes of the new-style vaccination campaign in the Owo area - where immunization coverage was lifted from less than 10% to 83% in just twelve months. Its successful completion by 1989 will result in annually saving the lives of some 200,000 Nigerian children.

In Turkey, the launching of a five-year Turkish Child Survival and Development Revolution is planned for 1985 to try to repeat, nation-wide, the successes achieved in Van province where the same combination of low-cost techniques has reduced infant deaths by 65% in the last four years.

In Cheraga district, Algeria, the infant mortality rate has already been cut by 60% (from 103 to 43 per 1,000) in only five years, using a combination of low-cost techniques including the promotion of breast-feeding, better weaning, growth monitoring, oral rehydration therapy, and immunization.

In Algiers itself, the country's newly appointed Health Minister has pledged to halve the nation's infant death rate in the next five years. The campaign will be spearheaded by a nation-wide ORT program to combat the diarrheal dehydration which now accounts for nearly 40% of all child deaths in Algeria.

Not all of these campaigns will succeed. Some will fail to maintain the initial enthusiasm. Some will rest content to have reached 50% instead of mobilizing all possible resources to reach 80% and 90% of the population. Some will fail to reach the poorest families. Some will fall victim to recession and cut-backs in government spending. But some are succeeding in achieving higher levels of children's health and well-being. The Child Survival Revolution is no longer a theory. Many thousands of children's lives are being saved.

UNICEF, of course, has been deeply involved in all of these campaigns.

"Self-health"

Of course, breakthroughs in knowledge and technique have been made before. Usually, they have reached only a minority of the developing world's people: either they were too expensive, or they could only be made available via the hospitals, doctors and clinics which are just not available to the majority. But the four basic strategies of the Child Survival Revolution represent advances of an altogether different order. And what gives them their unique potential is that:

-- They can be distilled down to an essence of simple practicable information and advice which almost all parents can understand and act on. They are therefore not dependent only on the extension of health services.

-- They are so inexpensive that almost any family and any nation can afford to put them into practice. For all four, the average additional one-time cost would probably not be more than $10 per child.

-- They are so universal in their relevance, and so synergistic in their relationship with each other, that they would strike at the heart of the child health and malnutrition problem in almost every poor community in the developing world.

-- They are not dependent on profound changes in values nor do they go against the grain of people's own priorities. Rather, they offer a means by which parents can realize their own wishes for healthy surviving children.

Drastically improved child health and survival is therefore made realistic by shifting its operational center of gravity from health institutions to the family itself. And in that sense, the Child Survival Revolution can be seen as part of an even broader global trend towards returning the primary responsibility for health to the individual.

In the industrialized world itself, the investment of extra billions of dollars in medical technology is yielding ever more marginal gains in human health. Low-cost changes within the power of the individual, on the other hand, could lever health to new levels. (The Centers for Disease Control in Atlanta, for example, has estimated that ten years or more would be added to the life expectancy of the average American male if he would take four simple measures: stop smoking, moderate alcoholic consumption, control the quantity and quality of his food intake, and exercise.)

In the very different circumstances of the developing world, where health has also tended to become associated only with white coats and hospitals, a new perception of the family as the prime guardian of its own health is also the pre-condition for dramatic advance. And in most developing nations today, the frontiers to a healthier society can also be crossed by knowledge which enables families themselves to protect the lives and the health of their children by changes which are within their own power to realize.

Assuring the Will, and the Means, as well as the Ways

Even in difficult economic times, it can be seen that a combination of changing knowledge and circumstance has opened up the possibility of providing a minimum safety net of the most basic protection for the growing minds and bodies of the world's most vulnerable children. The techniques are known. The organizational capacity is, broadly speaking, in place. The costs, both politically and financially, are absolutely minimal in relation to the benefits such protection would bring.

In short, we are faced not with a grandiose long-term plan dependent upon a thousand doubtful premises, but with a few specific, relatively low-cost tasks which most nations could realistically expect to achieve within the next few years if they would only mobilize to achieve them. Specifically, all families could be enabled to use ORT, all children could be immunized, all mothers could become aware of the importance of breast-feeding and proper weaning, and almost all parents could have the means and the knowledge to prevent malnutrition through the monitoring of their children's growth. It is extraordinary that four such apparently simple propositons could so dramatically improve child health as to halve the rate of deaths, disabilities, and malnutrition. But this is the opportunity which present knowledge has now created. And we are therefore left with a stark question - have we the will to do it? In the developing world, it is clear that the realisation of this present potential depends, more than anything else, on the political commitment of a nation's leadership and the mobilization of all its organized resources. We have found increasingly that countries are prepared to marshall the will. The noble experiment in El Salvador which I described earlier, as well as other locations which you might normally consider "least likely" to attempt such efforts - like Haiti or Burkina Faso - are simply among the more fascinating.

But in times of continuing economic disaster for most of the developing world, will these countries have the means to match their will and their possiblities? Many will also still require financial and practical help - especially in the form of foreign exchange. The industrialized world therefore also has an opportunity to demonstrate its commitment to the world's children. And, frankly, there are few more effective and time-proven channels for demonstrating that commitment than UNICEF.

Will we do our share? That question very largely depends on this Subcommittee, Mr. Chairman - and upon this Congress, and upon your colleagues in the parliaments of other developed countries around the world.

It doesn't take much, but it takes something. Of course, United States contributions to UNICEF, the United Nations Development Program, and to other agencies and projects, as well as the work of AID, have made possible much of what has happened so far, and much of what is yet possible. But obviously, much more must yet be done.
President Reagan has declared: "As President of the United States, I am asking the American people to help bring about a health revolution for children during the coming decade by supporting UNICEF's humanitarian program." I hope that the Congress will back up the President's words by providing for a United States contribution to UNICEF of $60 million for 1986. This would represent a modest increase over the 1985 contribution, which was barely a token increase over 1984. These are difficult times, of course. But they are far more difficult for children in the favellas of Latin America and the parched deserts of Africa. For them it is not a question of balancing a budget, but of balancing life against death.

A similarly modest increase in the U.S. contribuion to UNDP, and at least maintenance of the current levels of the AID Health Account, would also make important contributions.

Last October, a major initiative of the Congress resulted in establishment of the Child Survival Fund, providing $25 million which is now being programmed to support private voluntary organizations undertaking child survival activities. The special advantage of this approach is that it clearly asserts Congressional interest in seeing the private sector - ranging from the Red Cross and Rotary to midwives networks and street vendors associations - play the essential role which they can play in taking the Child Survival Revolution directly to the people - the parents and families and communities who are at the core of its potential. For your information, AID has asked UNICEF to assist in programming $7.5 million of this initial appropriation. UNICEF has pledged that it would retain none of this fund for its own overhead, but would allocate it entirely to the indigenous local PVOs and some international PVOs with which it has perhaps better working experience than any international assistance organization.

I urge the Congress to continue its initiative of the Child Survival Fund and to increase it to $50 million for 1986. I can assure you that such funding can be quickly and very well spent by PVOs engaged in child survival activities.

These are tiny amounts, Mr. Chairman. They will not do the whole job, but they will move us further along. And they will be joined by the contributions of many others who respond to the leadership of the United States.

To those who may argue that, yes, this all sounds very nice, but we have to reduce the deficit and we can't be spending our resources on little things like UNICEF and child survival, I must ask: How low does the cost have to fall before we decide we can afford it? How cheap must children's lives be priced before we consider that they're really worth saving?

We are now talking about a particular opportunity to save the lives of approximately 7 million young children a year, and to protect the normal development of many millions more, at a cost which certainly does not exceed a fraction of 1% of the world's gross international product. If the will to accept that challenge is missing, then perhaps it will never be there. For in all realism, it is unlikely that there will ever again be such an opportunity to do so much for so many, for so little.

PREPARED STATEMENT OF HON. ELLIOT L. RICHARDSON
CHAIRMAN
UNITED NATIONS ASSOCIATION OF THE UNITED STATES

As the Subcommittee on Foreign Operations considers the fiscal 1986 request for contributions to the voluntary programs of the United Nations system, I appreciate this opportunity to comment on the role of those voluntary programs. I submit this testimony in my capacity as Chairman of the United Nations Association of the USA (UNA-USA), a unique private organization conducting extensive programs of policy research and nationwide public outreach. The Association is dedicated to finding ways of strengthening multilateral institutions and enhancing the US role in them so that they can deal more effectively with those global problems that defy solution by one or a few countries.

The United Nations Association is particularly committed to supporting the work of the International Atomic Energy Agency (IAEA). UNA's nationwide study of nuclear nonproliferation policy last year concluded that the IAEA plays a crucial role by inspecting most of the world's peaceful nuclear installations to ensure that nuclear material is not diverted to military uses.

Our report, entitled "Nuclear Proliferation: Toward Global Restraint," synthesized the recommendations of 30 community panels and expert groups from across the country organized by UNA's Multilateral Project. These panels spent several months studying nonproliferation policy. Their overwhelming consensus: the IAEA's safeguards function is indispensable, but much more research and development is needed if the IAEA is to monitor adequately increasingly sophisticated nuclear facilities.

For this reason, UNA-USA strongly urges the Congress to appropriate the full $20.5 million requested by the Administration in voluntary contributions for the IAEA. Half of this money will go to the US Program of Technical Assistance to Safeguards (POTAS), which will be used to develop better safeguards techniques and equipment. Given the spread of reprocessing and enrichment plants and plutonium fuel fabrication facilities, all of which are particularly difficult to safeguard effectively, adequate funding for safeguards research is needed now more than ever.

The other half of the Administration's request will be used for IAEA technical assistance programs. In this year of the third Non-Proliferation Treaty (NPT) Review Conference, a clear demonstration of US commitment to providing assistance to peaceful nuclear programs is particularly important. Article IV of the NPT obliges the United States and other nuclear supplier states to provide such assistance to other signatories, and, as our report states, "The non-nuclear-weapons parties must enjoy the preferential access to safeguarded peaceful nuclear technology to which they are entitled."

Article IV provides an important incentive for countries to adhere to the Non-Proliferation Treaty, the cornerstone of the international nonproliferation regime. The US has long used the IAEA technical assistance program as its main channel for nuclear aid in fulfillment of its Article IV obligations. As I have noted, half of the US voluntary contribution goes to technical assistance. US voluntary contributions to the IAEA for the last two years have been only about $15 million per year, rather than the $20.5 million requested by the Administration. Initially, the shortfall resulted from a cutoff of US funding after Israel was denied a seat for one day of the 1982 IAEA General Conference. However, Israel has been able to participate fully in the IAEA ever since.

The shortfalls are beginning to have a serious adverse effect on the Agency's ability to carry out the technical assistance programs requested by member states. Many developing countries party to the NPT had already felt that levels of technical assistance were inadequate, and this became a major issue at both of the previous NPT Review Conferences. We are thus leaving ourselves open to the accusation that we are not living up to our Article IV obligation to provide peaceful nuclear assistance to non-weapons countries that adhere to the NPT. The vital national security interests of the US demand that the United States do all it can to abide by its NPT obligations, so that current members of the treaty will agree to remain members and so that additional countries will sign on.

UNA-USA also agrees with the Administration's request that an additional $5.686 million be provided to make up for the shortfall in last year's voluntary contribution. However, we emphatically disagree with the Administration's proposal to come up with the money primarily by taking it out of US voluntary contributions to the UN Environment Program (UNEP). Robbing Peter to pay Paul does not advance US interests.

Encouraging the integration of environmental criteria in development projects to avoid undesirable economic and social costs, the United Nations Environment Program (UNEP) is an advocate for the international protection of the environment and natural resources. As a strong supporter of the creation of UNEP, the United States has played an important role in setting UNEP's agenda on marine pollution, biological diversity, deforestation, soil erosion, and coastal destruction. UNEP has devoted substantial funding, for example, to the exchange of information and expertise on desertification among African countries, particularly in the Sudan and Sahel region. The project is designed to facilitate the transfer of desertification-control methods throughout the region. Among the organization's other recent accomplishments are the establishment of a worldwide International Register for Potentially Toxic Chemicals to provide profiles on a range of potentially harmful substances and the implementation of a treaty to promote sustainable development for the Caribbean while protecting the marine environment in that sea.

Other UN family agencies are also playing a crucial part in the struggle to improve the quality and security of life for all. The United Nations Development Program is the main channel for technical cooperation in the United Nations system. With an extensive network of 114 developing country field offices--the world's largest--UNDP administers projects amounting to $700 million per year in over 150 developing countries and territories. Almost 90 percent of UNDP's four thousand staff members serve in the field, actively promoting self-reliance in developing countries by extending to local population the managerial, scientific, and technical skills that are conducive to social and economic development. The success of those efforts is evident by the followup investment commitments made by the private sector totaling over $6 billion annually.

UNDP is funded entirely by voluntary contributions from governments, and relies primarily on the United Nations and its specialized agencies for implementation of its projects. Reflecting US priorities in development programs, UNDP Third Development Cycle programs (1982-86) have been characterized by greater allocations to the poorest countries and the beginning of reimbursements by countries which have started to meet successfully the challenges of development. In addition to our regular contribution to its ongoing program, the administration request for a $1.56 million US contribution to the UNDP Trust Fund to Combat Poverty and Hunger in Africa recognizes the important role of UNDP field offices in coordinating UN system wide relief to drought-stricken African countries. In fact, at the present time, the African continent receives the largest portion of UNDP program funds--over 45 percent. Continuing congressional support for UNDP will enable it to expand its programs in Africa with the goal of relieving the emergency situation there.

In tandem with UNDP's efforts on behalf of sustainable economic development, the United Nations Children's Fund (UNICEF) has undertaken a revolutionary effort to guarantee today's children a future role in that development process. Quite simply, over the past year, an estimated half million children's lives were saved by oral rehydration therapy, a low-cost water and salt solution which prevents and treats dehydration--a major cause of death among the world's children. In 1984, UNICEF supplied seventy-eight countries with 65 million packets of salts, and total annual production by developing countries themselves is now estimated at 100 million packets. Combined with the promotion of growth monitoring charts, breastfeeding, and a program of immunization, global application of oral rehydration therapy could cut by one-half the rate of child deaths and save up to two million children per year.

UNICEF is promoting the long-term welfare of the world's poorest children--the Child Survival Revolution--by encouraging self-help methods of health care. As a result, parents can act on the basis of practicable information and advice, and not be dependent solely on medical and health services which may not always be readily available to protect a child's health. Further, UNICEF has played a critical role in providing emergency aid in natural disasters. In recent years, the agency was instrumental in mobilizing the UN system and the international community in responding to the Kampuchean emergency in 1979, and it maintained the lead role in this effort until 1981. In Lebanon, UNICEF has played a key role in providing relief and rehabilitation assistance in the aftermath of the outbreak of civil war.

Although most US voluntary contributions are directed to the UN programs mentioned above, other UN voluntary agencies to which the US provides smaller contributions perform important functions as well. The United Nations Capital Development Fund provides financing for low cost housing, health care clinics, basic agricultural equipment and irrigation and food storage systems in rural areas. The United Nations Institute for Training and Research (UNITAR) trains junior and middle level, foreign diplomats from developing countries for service in international organizations. The World Food Program's (WFP) contributions of food and services assist developing nations in establishing school feeding programs as well as relieving emergency needs in time of disaster. The World Meteorological Organization (WMO) facilitates international cooperation in the exchange of weather-related data. The US contribution to the UN Voluntary Fund for the Decade for Women serves to improve the status of women by integrating them into the economic and social development processes in their countries.

Mr. Chairman, the United States has historically provided the leadership with which to make United Nations voluntary programs effective. American leadership--in the form of providing personnel, financing and technology--has enabled these programs to make an important contribution to self-reliance and economic development throughout the world. Making a serious effort to satisfy the needs of the world's poorest directly enhances our national security. The world will only be as secure as it is economically strong and stable. The work of UN voluntary agencies is instrumental in building such a stable world order. These organizations are able to reach even into areas where our bilateral assistance would not be welcome. Thus, they are both complementary and supplementary to our own efforts.

The United States Congress has a distinguished record of support for the goals and accomplishments of the United Nations' voluntary programs. Contributions authorized and appropriated by Congress are the tangible demonstration of American support for humanitarian activities. That commitment to less fortunate peoples is a hallmark of our foreign policy and a tribute to our belief in working with others to solve difficult problems. We urge your continued strong support of these efforts.

PREPARED STATEMENT OF WERNER FORNOS
PRESIDENT
THE POPULATION INSTITUTE

Mr. Chairman, I am Werner Fornos, President of the Population Institute, the largest citizens network concerned with bringing global population and resources into a more equitable balance.

During the first four years of the current Administration, there was general support for the 20-year bipartisan United States international population policy objectives spanning five administrations.

The President voiced his concern in statements emanating from economic summit meetings, expressing, along with leaders of other industrialized nations, his support for efforts to curb rapid population growth.

Secretary of State Shultz and U.S. Ambassador to the United Nations Kirkpatrick emphasized the necessity for Third World countries to contain their population growth in order to achieve their development goals and objectives.

Meanwhile, the U.S. population budget has been increased by some 53 percent, primarily due to Congressional actions.

But in the year that has passed since I last appeared before this committee, the Administration has reversed its field on this important issue involving the future of humanity.

A new population policy paper, drafted by the White House, concluded that U.S. population assistance for developing countries has been a failure and resurrected the old myth that development is the best contraceptive. This ignores the progress of countries such as Indonesia, Thailand, Mexico, Colombia, and several others that have brought their population growth rates down by 15-to-45 percent.

The President, ignoring the fact that world population is now growing at an unprecedented rate of 85 million a year, told a national television audience that the global population explosion has been "vastly exaggerated."

Through Administration policy, the United States has cut off funds to the International Planned Parenthood Federation, the largest and most experienced non-government organization involved in family planning programs for developing countries.

And the Administration has made the decision to withhold $10 million of the $46 million Congress mandated last year for the United Nations Fund for Population Activities, the most significant multilateral agency involved in family planning programs for the developing world.

A clause that the U.S. Agency for International Development has proposed for inclusion in cooperative agreements has drawn sharp criticism from a number of sources, including two of the country's most distinguished institutions of higher learning: The Johns Hopkins University and Columbia University.

Commenting on the clause, Estelle Fishbein, General Counsel for Hopkins, said:

> "The University is particularly concerned that the clause in essence makes the recipient an insurer that AID funds will not be distributed to organizations advocating the use of 'abortion as a method of family planning.' At some point, however, in the chain of distribution of funds, goods, and services, it becomes unreasonable to hold the recipient responsible for the views espoused by a group which may have come into the possession of material originally purchased with AID funds."

Dr. Allan Rosenfield, director of the Center for Population and Family Health under the Faculty of Medicine of Columbia University, commenting on the same clause, said:

> "We are to require NGO sub-grantees and sub-sub grantees to sign a document which we at Columbia University would not sign ourselves if so requested, since it puts restrictions on how funds obtained from sources other than USAID are to be spent. While the U.S. government may put restrictions on ways federal funds are expended, we would object to limitations being placed on the legal use of other funds. Therefore this application of a double standard seems to me to be an untenable situation that puts in question the sovereignty of private foreign organizations.
>
> "As a physician I would find it unacceptable, even unethical medical practice, to require family planning providers in a country in which the provision of abortion is legal, as it is for example in the United States, India, and Bangladesh, not to be able to counsel or refer for abortion services, when indicated.
>
> ". . .under the proposed clause, abortion as a method of family planning is, in effect, defined as any abortion unless it is necessary to save the life of the mother. To characterize an abortion peformed for reasons of rape, incest, or to preserve the physical or mental health of the mother as a method of family planning is a definition to which I object strongly."

Meanwhile, the United Nations Fund for Population Activities is being punished because it provides some population assistance to the People's Republic of China. There have been press allegations of forced abortion and infanticide in China. By distorting the facts, opponents of the Chinese program have concluded --- despite vigorous denials of high officials in the People's Republic of China (see attached letter from Zhang Wenjin, Chinese Ambassador to the United States, to U.S. Secretary of State George Shultz) --- that forced abortion and infanticide are part and parcel of China's family planning program.

Moreover, UNFPA denies that any U.S. funds, or, for that matter, any UNFPA funds have been used to support abortion or infanticide in China. No responsible source, not even the reporters who wrote the articles from which recent allegations about China's family planning program stem, have suggested that a penny of U.S. or UNFPA funds has ever been used for either abortion or infanticide.

Yet AID withholds $10 million appropriated by the Congress, approximately the sum UNFPA allocates to China, from UNFPA.

In response to U.S. sensitivity about the Chinese population program, the UNFPA, in August of 1984, established sub-accounts, enabling every nation to trace where its contribution goes. On the basis of this arrangement and "concrete assurances" that none of the U.S. funds would be used in China, the United States released $19 million, which it had impounded, to UNFPA.

When more recent allegations surfaced, via newspaper articles, the Administrator of the U.S. Agency for International Development dispatched a team, composed of a member of the U.S. permanent mission to the United Nations, as well as representatives of the State Department and AID, to investigate the accusations. That team concluded that meticulous bookkeeping left clear audit trails as to where U.S. funds were used and that none were expended in China or for that matter, on abortion or infanticide.

The fact of the matter is that UNFPA has well established population and family planning programs in 120 countries, far exceeding the number of countries with which the United States has bilateral programs.

Turning to the International Planned Parenthood Federation we find that IPPF spends less than one percent of its funds --- but not a dime of U.S. monies --- on abortion related activities in developing countries requesting such assistance. In fact a 1973 amendment to the U.S. Foreign Assistance Act prohibits use of U.S. funds for abortion in foreign countries.

Curiously enough, there has been no evidence that IPPF has used U.S. assistance to fund abortions. AID has not made such an accusation, nor has any newspaper or any member of Congress. On the contrary, audits by the General Accounting Office and the AID Inspector General have not turned up a scintilla of evidence that population assistance is being misused.

Yet AID has cancelled $17 million scheduled for IPPF and says it will redirect these funds to family planning programs in Africa and Latin America where abortion is prohibited. Presumably these funds will be used for such projects as CP84.07A, which is "A Comparative Study of Polygamy and Fertilty in Africa" --- research currently underway with U.S. population funding. If that study concludes that polygamy is having a positive effect on slowing down fertility rates, will the U.S. government recommend polygamy as a method of family planning in Africa?

Mr. Chairman, IPPF is the largest and most widely respected non-government organization involved in family planning in the developing world. There are serious questions as to whether AID will be able to find programs that can use these funds as expeditiously or as effectively as IPPF has been using them over the years. The Administrator of AID has repeatedly stressed that non-government organizations are the most cost-effective means of providing development services. However, without a shred of evidence that U.S. taxpayer dollars are being used, or were ever used, for abortion by IPPF anywhere in the world, this organization has had one of its primary funding sources severed.

Mr. Chairman, the Senate Foreign Relations Committee recently approved an amendment to the 1986-87 foreign assistance bill that would cut off U.S. funds for UNFPA if that agency does not rescind its funding of China's population program. As you well know, Mr. Chairman, from your experience in working with the United Nations system, it is not within the power of UNFPA to make such a decision.

The 27th Session of the General Assembly of the United Nations in December of 1972 passed Resolution 3011, which places oversight for UNFPA with a 48-nation Governing Council, which includes the United States. Indeed that Council, with the concurrence of the United States, approved the current UNFPA assistance for China only last June for a five-year program.

In light of this action, the appropriate vehicle for getting UNFPA out of China is not legislative blackmail. Instead it is a relatively simple procedure once the Administration has made the decision that it wants to do this: Instruct the U.S. representative to the upcoming Governing Council meeting in June to call for the recision of that assistance. By demanding the impossible of UNFPA, the Foreign Relations Committee amendment reveals its sponsor's true motive --- to cut off all funds for UNFPA.

Mr. Chairman, I respectfully submit that the recent actions directed at UNFPA and IPPF are nothing more than subterfuge --- a smokescreen to conceal an insidious hidden agenda.

Under the guise of discouraging abortion, these actions will have exactly the opposite effect. The denial of funds to the most significant non-government organization and the most important multilateral agency that provide family planning services to developing countries will deprive countless poor women in developing countries access to modern contraception. Many of these women will resort to the only alternative available to them: life-threatening, illegal abortions. According to Columbia University, there were an estimated 40 million illegal abortions performed throughout the world last year. Yet an avowed anti-abortion U.S. Administration seems prepared to become the architect of an ironclad guarantee that many more illegal abortions will be forthcoming in the years ahead. Mr. Chairman, the Administration's new policy is not the crusade against abortion it purports to be. Rather, it is a crusade against family planning.

As the world grows by 85 million people a year, the United States should be pulling out all stops to accelerate its assistance for international population and family planning programs. Instead we are taking definite and deliberate steps backward. Steps to circumvent the will and intent of Congress. Steps to thwart the efforts of organizations that have established distinguished records in extending the human right of couples to determine the size and spacing of their families.

The World Bank in its 1984 World Development Report categorically stated that "the significance of population growth in shaping the world is at least as great as financial crisis or political upheaval." Urging an immediate intensification of efforts to slow down rapid population growth in developing countries, the Bank warned that:

> "Inaction today forecloses options tomorrow in general development strategy and in future population policy. Worse of all, inaction today could mean that more drastic steps, less compatible with individual choice and freedom, will seem necessary tomorrow to slow population growth."

The report goes on to say that the "main cost of such growth, borne principally by the poor in developing countries has been and will be faltering progress against what is still high mortality, and lost opportunities for improving people's lives."

Today, the majority of couples in developing countries still do not have access to family planning services enabling them to control their own fertility. The consequences are serious for individuals, countries and the global community:

- Women bearing large numbers of children spaced closely together are themselves high mortality risks, and their children are twice as likely to die as children spaced at least two years apart.
- Countries undergoing rapid population growth are susceptible to famine, uncontrolled migration and environmental deterioration, which in turn can result in widespread death, disease, civil disorder and degradation of human life.
- Within the next two or three decades, the projected addition of over two billion people to the earth's population can result in a negative impact on the world's land, climate and food supply.

This grim situation is a problem as far reaching as any confronting humanity.

But there is hope. We can and are having an impact on the population growth problem.

- As evidenced at the International Conference on Population in Mexico City last year, the overwhelming majority of the leadership in the developing countries recognizes that countries with uncontrolled population growth will find it difficult or impossible to attain their social and economic objectives.
- All large developing countries are attempting to implement population programs that include family planning services. Every developing country has invited the United Nations Fund for Population Activities to assist in addressing its population problems.
- Currently, for every $1 contributed by the international community, developing countries are committing $4 of their own scarce resources for family planning activities.
- Advances have been made in the quality and variety of contraceptive options available to those desiring such services.
- Major declines in birth and population growth rates have been achieved in some developing countries, even while death rates continue to fall.

The difficulties, however, are still of enormous proportions.

- The current crisis in Africa dramatizes the potential for demographic catastrophe. At present growth rates, that continent's population will increase twenty-fold in the next century. Unless the population problem is addressed, efforts at short term relief and long term development will be overwhelmed, with tragic human consequences.

- In large parts of the developing world, in addition to Africa, we see the ravages of deforestation, desertification and the extinction of plant and animal species. It will be difficult to halt, let alone reverse, these trends.

- International resources provided for family planning activities, including funds from the United States, are not keeping pace with increased requests for such assistance.

- Family planning services are currently unavailable to 400 million couples who desire to plan the size of their families and the spacing of their children. Within the next 15 years, 355 million more women already born in the developing world will have reached childbearing age and be starting their own families.

- Even seemingly small delays in making family planning services available can have staggering consequences. For example, Middle America's population, currently 104 million, would stabilize at an ultimate population of 200 million if a two-child family norm can be reached over the next 20 years. A delay of 10 years in providing the family planning services needed to reach that goal would instead imply a population stabilizing at over 245 million, a difference nearly equal to twice today's population of Central America.

- Within the United States, individuals and organizations opposed to family planning have mounted political attacks against such assistance. These attacks often distort reality. For example, although not a single country in the world promotes abortion as a method of family planning, and although legislation has for years prohibited any use of U.S. government funds for overseas abortion activities, this issue is continually brought up in the family planning context. Ironically, it is the lack of family planning services that leads to increased infant mortality and to a high incidence of abortion.

The Population Institute firmly believes that all the world's couples must be given the ability to protect their own lives and those of their children.

We cannot, as a compassionate nation, tolerate a position of careless neglect. The world expects more of us. Each time a couple is denied the opportunity to plan its own family size and spacing, the life of the mother and unplanned child is put at risk. Cumulatively, the inability of couples to obtain family planning services threatens the lives of many people in the developing countries, and the quality of life of all the world's citizens.

The Population Institute urges this committee and the United States Congress to take the following actions:

1. A total of $320 million should be made available

for international population assistance. This is the same amount authorized by the House of Representatives last year. In view of the unprecedented 85 million people now being added annually to the world's numbers, under no circumstances should program levels drop below the current $290 million. The amount we recommend will only modestly increase the availability of family planning services to the 400 million couples in the developing world desiring to plan the size of their families and the spacing of their children, but who lack the education and the means to do so. The absence of such services greatly increases the incidences of abortion and maternal and infant mortality.

2. The U.S. government should continue to support the efforts of non-governmental organizations that provide cost effective, expeditious and flexible family planning services. Our government should not discriminate against NGOs for activities they conduct overseas with funds not provided by the U.S. government, so long as such activities are consistent with U.S. domestic laws. In particular, the Congress should mandate the restoration of funding for the International Planned Parenthood Federation.

3. Congress should maintain the earmark for the United Nations Fund for Population Activities of 16 percent of the funds made available for international population assistance. The rationale for the earmark is UNFPA's unique ability to provide assistance for population related activities to all developing countries. The UNFPA has voluntarily opened its books to U.S. government agencies, provided repeated written assurances that none of its funds support abortion activities, and strictly adheres to all applicable provisions contained in U.S. law. Capricious impoundment of U.S. contributions to UNFPA should cease.

4. The Institute supports the Agency for International Development's current policy on population assistance requiring that private agencies receiving AID funds must "include a description of the effectiveness and risks of all major methods of family planning and an agreement either to provide other family planning methods if requested or to refer couples to programs offering other methods as appropriate." This policy is important so that individuals can be assured the ability to choose a means of preventing unwanted pregnancies best suited to their own personal needs and beliefs.

5. The U.S. government, in funding its own and other family planning programs, should support and encourage increased involvement of women in the design and administration of family planning programs.

6. The U.S. government should increase its financing, both through domestic health programs and international family planning funds, of basic and applied biomedical research into new and improved methods of contraception, to help assure that a

full range of simple, safe and effective contraceptive methods can be made available to all those desiring such services.

7. In designing and administering its population programs, the U.S. government should be guided by the principle, agreed to by all governments that participated in the 1984 International Conference on Population, that all couples and individuals should be able to "exercise their basic human right to decide freely, responsibly and without coercion, the number and spacing of their children and to have the information, education and means to do so."

In the six years I have been appearing before you, I have described the agonizing consequences of continuing rapid population growth in the poorest nations of the world. Today we are witnessing one of the most frightening portents of overpopulation become a reality --- a living nightmare of hunger, starvation and death in Africa. Although Ethiopia has been the country hardest hit by the Sahel famine, the lives of more than 140 million Africans in 22 countries are still threatened by this devastating drought.

The current Sahel famine was predicted in a classified National Security Council report of December 10, 1974. Had we heeded this report's recommendations, there is little doubt that the cost in human lives would not have been nearly as severe as it is today. To say nothing of the monetary cost of emergency relief: the United States and other donor countries provided $1 billion in food aid to Africa in 1984; at least another $500 million will be required this year to alleviate the current crisis. If half or even a third of that amount had been spent on population assistance in Africa over the past decade, I am certain you would have seen a vastly different situation in the Sahel today.

In conclusion, I am compelled to remind the committee that this is not the first time drought and famine have taken their tragic toll in the Sahel. Africa is threatened and other regions of the developing world --- every region where population growth is vastly outpacing food production --- are threatened as well. Unless we take immediate and positive steps to accelerate family planning service delivery in the Third World, where 92 percent of world population growth is occurring, the Sahel famine will not be the last. I am reminded of the words of the philosopher, George Santayana, that strike at the very heart of this matter: "Those who cannot remember the past are condemned to repeat it."

THE EMBASSY OF THE PEOPLE'S REPUBLIC OF CHINA
2300 Connecticut Avenue, N.W.
Washington, D.C. 20008

March 9, 1985

Hon. George Shultz
Secretary of State
Department of State
2201 C Street, N.W.
Washington, D.C. 20520

Dear Secretary Shultz,

It is my great pleasure to write to you with a view of promoting our mutual understanding. Here I wish to bring to your attention an issue of our common concern: the U.S. Agency for International Development has decided to withhold its contribution to the United Nations Fund for Population Activities on the ground that it wants to ensure "not a single U.S. dollar going toward abortion in China." I would like to point out that this reasoning is mainly based on the lopsided, distorted and exaggerated reports on China's cases of "abortion" and "infanticide" by certain American newspapers and these reports by no means tally with facts. I wish to make clear the following points:

1. The policy of the Chinese Government is that it is opposed to force and coercion of any form in the family planning program and it puts emphasis on publicity and education, and that the program should be carried out on a voluntary basis. Contraception is the first and foremost means of family planning, whereas abortions are only performed in instances of contraceptive failure and at the woman's request as a remedial measure. What is more, it is stipulated in our country that no abortion should be performed at the third month of pregnancy or thereafter. The afore-said policy of the Chinese Government has long been made public and was elaborated on by Minister Wang Wei and Vice Minister Zhou Boping of China's State Family Planning Council during their separate trips to the United States.

2. Though infanticide did occur occasionally, the Chinese Government has taken such cases very seriously which were promptly investigated and dealt with according to law as soon as discovered. Moreover, Chinese press publicly expose and criticize these repulsive actions. Such cases are diminishing. After their China trips, many Americans confirmed that the policy of the Chinese Government is not to encourage, but rather to put an end to such cases. The few cases blown out of proportion by some American reporters do not present a true picture of China's family planning. As you know, Article 49 of China's Constitution stipulates in explicit terms that "children are protected by the state and that maltreatment of old people, women and children is prohibited." Furthermore, Article 15 of the Marital Law states that "infanticide by drowning and any other actions causing serious harm to infants are prohibited." On behalf of the Chinese Government, Premier Zhao Ziyang vigorously denounced such acts at the 5th Session of the Fifth National People's Congress in November, 1982. He said "the whole society should resolutely condemn the criminal activities of female infanticide and maltreatment of the mothers, the judicial departments should resolutely punish the offenders according to law."

3. The departments concerned of the Chinese Government have declared on a number of occasions that not a single dollar contributed by the UNFPA has been used by China in support of abortions. The UNFPA has also pledged not to use any of its fund to support abortions. Under such circumstances, it is obviously unjustifiable for the U.S. to withhold its contributions to the UNFPA on the ground of allegations of abortions. The "Mexico City Declaration on Population and Development" adopted at the U.N. Conference on World's Population last August requires that the international community actively support the world's population activities. The American delegates to the Conference expressed their approval of the Declaration and repeatedly pledged their support to the world's population activities. It is hoped that this positive

statement will be put into practice by the U.S. authorities concerned.

I appreciate your concern for the Chinese people. If you have any questions regarding the above points, I will be only too glad to provide further explanations.

With very best regards,

Yours sincerely,

Zhang Wenjin
Ambassador of the PRC

cc: Mr. Michael Armacost
Mr. Paul Wolfowitz
Mr. Werner H. Fornos, President,
The Population Institute

PREPARED STATEMENT OF SHARON L. CAMP, PHD.

VICE PRESIDENT

POPULATION CRISIS COMMITTEE

This statement is being submitted by Dr. Sharon L. Camp, Vice President of the Population Crisis Committee, for inclusion in the record of hearings on the Fiscal Year 1986 development assistance appropriations legislation.

The Population Crisis Committee (PCC) is a private non-profit organization which has, since its establishment in 1965, been a leader among population organizations in efforts to strengthen political and financial support for family planning overseas. Our work involves high-level advocacy at home and abroad to increase government commitment and also selective support of innovative private family planning programs in developing countries. It is perhaps important to state that we receive no U.S. government money for any part of our programs. Thus, while we may express strong opinions about the direction of U.S. population assistance, these comments are not motivated by any fiduciary interest in the program.

PCC welcomes the opportunity to share with the Subcommittee on Foreign Operations our growing concern over the future of U.S. assisted international family planning programs. Unless Congress intervenes directly to challenge the Administration's overall management of U.S. population assistance, the overseas family planning infrastructure which has been painstakingly built over the last two decades will be dismantled. The process is already well underway.

The origins of the current policy crisis date back to the early years of President Reagan's first term, but the watershed was the International Conference on Population held last August in Mexico City. In preparation for U.S. participation in the conference, the White House issued a policy statement on U.S. population assistance which was a dramatic reversal of longstanding bipartisan policy on the subject.

A May White House policy draft entitled "Position Paper for the International Conference on Population" made some incredible statements. It argued that population growth "is, of itself, a neutral phenomenon," that in fact "population growth has been an essential element in economic progress." It characterized the efforts of Third World countries to moderate population growth rates as "an overreaction." Arguing that the post-war population boom need not have become a crisis, it blamed the problems associated with current population pressures abroad on mismanagement by Third World countries of their economies, in particular, government control and interference in the form of price fixing and confiscatory taxes. Finally, it argued that economic freedom, leading to economic growth, would in and of itself lead to population stabilization. By proposing free enterprise as the solution both to the problems created by rapid population growth and to population growth itself, the paper implicitly rejected the importance of direct interventions to bring down birthrates through organized family planning services.

In addition to these spurious pronouncements on population growth, the paper set forth specific new restrictions on eligibility for U.S. population assistance, designed to impose the Administration's views about abortion on family planning programs around the world. The paper stated that the United

States "does not consider abortion an acceptable element of family planning programs and will not contribute to those of which it is a part. Nor will it any longer contribute directly or indirectly to family planning programs funded by governments or private organizations that advocate abortion as an instrument of population control."

Over the summer, public reaction to the White House draft poured in from across the country. In June, July and August of 1984 no less than 244 editorials and Op-Ed pieces opposed the Mexico City policy statement. Only 37 supported the proposed policy changes. A Gallup poll showed that fully 71 percent of those who expressed an opinion rejected the new abortion restriction and 90 percent rejected the arguments about population growth and economic development.

In an effort to diffuse a growing public relations fiasco, the Administration moved on July 13 to issue a revised policy paper for the Mexico City Conference, which it characterized as a "compromise." The single compromise related to the new abortion restrictions. Governments who include abortion in family planning programs were exempted from the new abortion provisions so long as they maintained segregated accounts for U.S. funds. But multilateral organizations and nongovernmental groups are to be rendered ineligible for further U.S. assistance if they "perform or actively promote abortion," regardless of the source of funding for abortion activities. The way in which these terms are now defined poses a serious threat to continued AID support of those nongovernmental organizations most active in the expansion of family planning services worldwide.

The policy that the United States delegation took to the Mexico City Population Conference was blatantly self-contradictory -- it pledged continued U.S. population assistance, but at the same time rejected the need for it.

As a result of repeated assurances from the Administration that the new policy would have little impact on U.S. support for international family planning, many were lulled into believing that the crisis was over and that, once the election was behind them, Administration officials would seek accommodation with family planning organizations in order to keep existing programs in place.

Congress, however, saw the need to reaffirm longstanding U.S. support for population efforts, and to clarify congressional intent on abortion restrictions. In September 1984, during work on the FY 1985 Continuing Resolution, Congress provided a $50 million increase for population assistance and earmarked 16 percent of the account for the United Nations Fund for Population Activities (UNFPA). The House in its version of the bill also adopted language specifying that congressionally-mandated restrictions on support for abortion-related activities applied only to U.S. government funds and could not be used to deny eligibility for AID support to organizations which paid for such activities out of other funds. Since the Senate did not vote on the provision, it appeared in the FY 1985 Continuing Resolution as the "sense of the House" only. Administration officials have determined that it may be safely ignored. They are now implementing their new policy in earnest.

In December 1984, any illusions that the Administration would temper the implementation of its new policy so as to avoid damage to ongoing family planning programs were put to rest with the decision to withdraw U.S. support totaling $17 million from the International Planned Parenthood Federation (IPPF). The loss represents a 25 percent cut to IPPF programs. The IPPF is not, as the Administration would have us believe, simply one of many private intermediaries for U.S. family planning aid. It represents the worldwide network of indigenous national family planning associations, with 119 members. The only private voluntary organization in the world larger than IPPF is the Red Cross. In some Latin American and African countries, IPPF affiliates are the principal or only source of contraceptive information and supplies. Even where governments or other AID-supported private organizations are active in family planning, the IPPF affiliates' facilities or manpower may be the foundation on which other programs build. For example, U.S. bilateral population assistance to Guatemala is turned over by the government to the local IPPF affiliate to operate family planning services for the country.

Using such bilateral and PVO channels, AID may replace some of the lost funding for IPPF affiliates in favored countries. It cannot, however, replace the institution-building support which IPPF provides its members. This is particularly true of fledgling affiliates in areas like Africa where the loss of U.S. funds has already prevented the establishment of 13 new African affiliates in IPPF's original work plan for the next three years.

It should be clearly noted that IPPF has already done a great deal to accommodate U.S. government concerns about abortion and was willing to do more. Six years ago IPPF set up, at the insistence of AID auditors, an elaborate donor accounting system designed to track any abortion-related expenditure. In most years, the accounting system has cost more to operate than the amount that IPPF has spent out of federation funds on abortion-related activities at the central and affiliate levels -- less than one-half of one percent of IPPF's budget. None of IPPF's other 21 government donors require anything similar. Under further U.S. pressure, IPPF agreed in the spring of 1984 to set up a separate bank account for U.S. funds to ensure that U.S. funds were never co-mingled with funds which might in some way support an abortion activity. After the Administration's new policy was announced in July 1984, discussions on a separate bank account became moot. During new negotiations with AID in November 1984, with only weeks to run in AID's six-year grant agreement with IPPF, IPPF went so far as to consider giving up all centrally-funded abortion activities, a move which would have been politically wrenching within the federation.

But for Administration officials -- apparently determined since July that IPPF would be the first defunding target of the new policy -- even this dramatic concession was not enough. IPPF was told that it must also agree to cut all further funding for any purpose to those dozen developing country affiliates with abortion activities. It was the one thing which IPPF, by virtue of its constitution, could not do. It is difficult to believe that AID officials, after more than a decade of involvement with IPPF, did not know this to be true when they set down the new conditions for funding.

Since the decision to defund IPPF, the pace of implementation of the new policy has quickened. In January 1985, responding to inquiries from Congress and the media, the Administration admitted that U.S. contributions to UNFPA, earmarked by Congress, were on hold pending a review of UNFPA programs. The hold was prompted by concerns over UNFPA's projects in China following press reports of family planning program abuses in that country.

UNFPA, a favorite target of anti-family planning groups, is now especially vulnerable because of public concern over reports of coerced abortion in China. Although Congress should express its concern about reports of human rights abuses in China, it should not do so by jeopardizing UNFPA programs in 115 other countries receiving assistance. No U.S. funds are used by UNFPA in China. U.S. funds are kept in a subaccount at UNFPA, none of which are co-mingled with funds provided to China. No UNFPA funds allocated to China are used to provide direct family planning services or to pay the salaries of any persons involved in the program. UNFPA's specific projects involve: demographic research and training; maternal and child health; contraceptive development; training; and population education. The official policy of UNFPA prohibits support for projects which involve abortion or any form of coercion. Finally, UNFPA projects are designed to improve the quality of family planning services. UNFPA's interaction with Chinese officials encourages greater commitment to curbing abuses. Clearly, UNFPA's involvement in China is part of the solution and not part of the problem.

In response to congressional and diplomatic pressure, AID recently released $36 million out of the earmarked U.S. contribution to UNFPA of $46 million on March 30. AID withheld $10 million (about the same amount UNFPA allocates to China), in order to signal to UNFPA the U.S. government's displeasure over their support for China's program. While we applaud AIDS's decision to release the $36 million to UNFPA, we believe the Kassebaum formula contained in the Senate Foreign Affairs Committee recommendations is a preferable way of dealing with the issue. We strongly oppose the Helms formula, which would require a cut-off of U.S. funds to any population organization working in China, even with non-U.S. funds. The defunding of UNFPA would seriously penalize the 115 other countries receiving UNFPA assistance, many of which rely on UNFPA support for important activities and do not sanction coercive family planning practices. Such an action would be unjustified and tragic.

Unfortunately, the attack on family planning programs has not stopped with UNFPA and IPPF. Since February, AID officials have taken steps to move against the large U.S. nongovernmental family planning organizations (NGOs) which constitute the remaining major channels of population assistance other than direct support to governments. These include private voluntary organizations, such as the Pathfinder Fund, as well as programs based in U.S. universities and research institutions. Another $80 to $120 million in current programs may be at stake depending on how the new restrictions are applied. But more importantly the organizations threatened are the most cost-effective and innovative part of the U.S. population assistance program. They are also the respository of much of the world's technical expertise on family planning -- an essential resource for programs operated by governments.

The move against the remaining nongovernmental organizations comes in the form of contractual clauses to be included as boilerplate language in all new AID grant agreements with NGOs. While, like the original May White House draft of the new policy, the proposed language may eventually be tempered by reason, an early draft of the clauses already cabled to two AID field missions may indicate how the Administration expects to proceed in implementing its new policy.

The Administration has assured Congress since last December that IPPF funds can be easily reallocated through other NGOs, and that accommodations can be reached with these NGOs over the proposed new contractual restrictions. In sum, the Administration is attempting to convince Congress that its new policy can be implemented without damage to international family planning programs. This claim is not supportable because the major NGOs have major problems with the contractual restrictions and some of those most likely to receive reallocated funds from IPPF have indicated their unwillingness or inability to comply.

AID has expressed its desire to reprogram the IPPF funds to increase the amount of funds available for Africa in light of the tragic crisis gripping the region. Unfortunately, the two organizations best suited to use funds in Africa effectively, Family Planning International Assistance (FPIA) and the Pathfinder Fund, have expressed serious reservations about the new contractual restrictions. In its comments on the contractual language solicited by AID Administrator McPherson, the Pathfinder Fund stated:

> ". . . In Africa, we estimate that as many as one-third of our total current projects would be jeopardized, including private clinics and hospitals where we support training. Hundreds of hours, months of planning, and sometimes years of effort have already been invested building relationships which are now fostering development of specific projects. Should the proposed language be implemented, much of this effort would be lost, as would a critical momentum for program development in Africa. . . . We estimate that at least 60% of all the institutions in Africa to which we award commodities would be open to serious question."

FPIA, currently the NGO receiving the largest amount of AID funding, has criticized the new contractual restrictions in exceptionally strong language:

> ". . . I want to reiterate our profound concern over the practical impossibility of our being able to comply with the apparent requirements of the policy and the clause -- that we police all non-AID funded abortion-related activities of all programs which we assist with AID funds. This is an impractical, unconscionable, and illegal burden to which we strongly object."

The committee will recall from the IPPF case that the new policy makes ineligible for AID funding any nongovernmental organization which "performs or actively promotes abortion as a method of family planning in countries overseas" (regardless of the source of funding) or which provides support to any other organization involved in such activities. The terms used in the July statement of policy have now been given rather startling meaning by the proposed boilerplate language. To "perform abortion as a method of family planning" is defined as performing abortion for any reason except to save the life of the woman. To "promote abortion" includes the provision of any information about abortion except, presumably, information condemning it.

These new restrictions will not be applied, however, to organizations incorporated in the United States. The Administration's lawyers have obviously advised that such a policy, once challenged, would surely be overturned by U.S. federal courts on statutory and constitutional grounds. The Administration will instead require its U.S.-based NGO grantees to enforce the policy on their subgrantees and sub-subgrantees overseas. In other words, AID's private sector intermediaries will have to agree, as a condition of any AID grant, to require written confirmation from indigenous LDC family planning organizations that they will not, in any part of their program, with funds from any source (including their own governments) perform abortions except to save the woman's life, counsel or refer clients for abortion, or so much as mention abortion in any public forum.

The potential impact on international family planning programs of a withdrawal of U.S. funds to both IPPF and UNFPA, combined with ineligibility of large numbers of foreign NGOs to receive AID funds through U.S.-based intermediaries, is enormous.

At least $80 million of AID-supported population family planning programs overseas are threatened by the new policy. A planned $17 million grant to the International Planned Parenthood Federation (IPPF) has been withdrawn. AID has requested that $10 million of the earmarked $46 million contribution to UNFPA be rescinded. Technical assistance, training and research totaling $30 million annually that is carried out by U.S. universities may be terminated because universities cannot according to their legal advisors accept the new conditions on AID funding. Other major U.S.-based PVO intermediaries, whose programs total an additional $47 million have indicated that they would have major difficulty complying with the restrictions (see attached excerpts from comments submitted to AID by NGOs). Some groups may eventually agree to sign based on assurances from AID that actual requirements for compliance will be less onerous than the present boilerplate language implies. However, the growing activities of U.S.-backed right-to-life groups overseas ensures that organizations which do sign will nonetheless risk entrapment, considerable harassment and perhaps eventual defunding over the next several years.

Because AID's current intention is to apply the policy only to new grant agreements, not all NGO AID recipients will be affected this year. AID can probably find ways to reallocate its current population assistance budget as the first wave of existing grantees are disqualified. But if the policy continues to be implemented, U.S. population programs will look radically different in two to three years and the effectiveness of U.S. assistance will decline seriously.

Over the next two to three years as ineligibility eliminates current NGO intermediaries, AID will be forced to allocate incresing amounts of population funds to generally less effective government programs. Moreover, AID government-to-government population assistance reaches less than 30 countries. In contrast, table 1 shows that NGO programs reach 90 countries, and UNFPA programs reach 120 countries. There are no bilateral population programs (but large NGO programs) in key countries such as Mexico, Brazil and Nigeria and direct support would be politically unacceptable to those countries. The small number of bilateral programs, combined with problems of policital sensitivity which would be engendered by direct U.S. population assistance in a number of countries important to U.S. national security, makes private, nongovernmental funding channels not just cost-effective, but essential.

Ironically, less effective family planning programs that reach fewer couples will result in unwanted pregnancies which in turn will lead to more maternal deaths in childbirth, infant deaths and an increased number of abortions. Closely-spaced births and frequent childbearing are major contributors to high rates of infant and maternal mortality in the Third World. Large families adversely affect maternal and child nutrition, birth weight and limit immunity against disease. Family planning alone could reduce infant and maternal mortality by half by helping couples space births and avoid high-risk pregnancies. Unfortunately, only one-third of the 500 million couples in developing countries, excluding China, have access to family planning services. By lowering the cost-effectiveness of family planning efforts, the new population policy will reduce access to family planning services and increase the number of couples resorting to abortion -- an effect clearly not intended by the White House and the anti-abortion movement.

Besides the disastrous practical impact the implementation of the new policy will have on international family planning programs, serious

TABLE 1

POPULATION ASSISTANCE PROVIDED BY AID BILATERAL PROGRAMS, IPPF, OTHER NGOs & UNFPA BY REGION
(in millions of dollars)

	Bilateral (proposed FY 1986)	IPPF (actual FY 1984)	Other Centrally Funded NGOs*	UNFPA
Africa				
Total Number of Countries	8	28	26	42
Total Funding Levels	$23.9	$10.2	$6.9	$33.7
Latin America and the Caribbean				
Total Number of Countries	11	34	21	32
Total Funding Levels	$25.5	$13.9	$12.7	$17.5
Asia and the Pacific				
Total Number of Countries	4	19	12	31
Total Funding Levels	$43.3	$11.7	$5.9	$57.2
Near East				
Total Number of Countries	2	13	6	10
Total Funding Levels	$6.0	$2.7	$5.2	$12.3

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* Includes only field expenditures associated with the programs of nongovernmental organizations centrally-funded by AID's Office of Population in FY 1984. An estimated $20 million in additional NGO programs are included under the bilateral programs. These would also be affected by the new policy. Total allocations to NGOs in FY 1984 represented 48 perent of the AID population budget.

philosophical questions are raised that have not been adequately answered. In reviewing the wisdom of the increasingly forceful implementation of the Administration's new policy, we believe the committee should consider the following points.

Implementation of the Administration's new policy in the manner proposed suggests to foreign populations that the U.S. government now seeks to manipulate the population policies of other countries by imposing conditions on its assistance to foreign nongovernmental organizations potentially at odds with law and policy in the aid-recipient country. This represents a precedent-setting break with the longstanding principles of non-interference and voluntarism associated with U.S. population assistance programs. Implementation of the policy attempts to make U.S. private sector institutions and their indigenous subgrantees in developing countries tools of the Administration's anti-abortion campaign. Such misuse of private sector institutions tarnishes the image of all U.S. foreign assistance programs and in particular of population assistance.

The proposal sets up a double standard in which basic constitutional protections, such as free speech, are accorded to U.S.-based nongovernmental organizations but not to foreign-based organizations. It puts the United States in the position of promoting a type of censorship which would not be tolerated in our own country. If we believe that the First Amendment protections of the U.S. Constitution are basic freedoms -- universal aspects of democratic government -- we cannot require censorship of free speech abroad simply because the issue is abortion.

Although the Administration has recognized the inherent national sovereignty of other nations in its decision not to impose the new abortion restrictions on government-to-government programs, it has failed to recognize that national sovereignty extends to foreign nongovernmental organizations which operate under laws and policies of their own countries and whose AID-funded programs often require specific host-country approval and sometimes matching funds.

Because the requirements of the new language are so sweeping and the specific definitions contained therein so open to widely differing interpretation, nearly all family planning providers now receiving AID assistance run a high risk of violating the restrictions at some time under someone's interpretation.

Nongovernmental organizations which agree to the new restrictions accept virtually unlimited liability for the conduct (including the public utterances) of all persons associated with the organization, its subgrantees and sub-subgrantees and for all activities in which those persons are involved, even if the activities are fully funded from non-AID sources.

In a large number of countries receiving AID support through NGOs, abortion is legal for reasons other than a threat to the life of the woman. Most medical institutions in these countries -- now the backbone of many AID-supported family planning programs -- would lose eligibility for support, since under AID's proposed language they are performing or promoting abortion "as a method of family planning." Their loss of eligibility would represent a major longterm setback to ongoing family planning programs. The problem affects 35 countries receiving AID assistance in FY 1984, representing 1.5 billion people or over 70 percent of the population in all countries receiving assistance.

The additional reporting requirements implied by the document are onerous and in many developing country settings virtually impossible. The majority of current AID subgrantees already need considerable technical assistnce just to meet existing AID reporting requirements. Many could not consider further AID support if reporting requirements increased substantially.

The implications of the Administration's new population assistance policy announced this summer in Mexico City are clear. They are disastrous. U.S. support for IPPF is gone. U.S. support for UNFPA is teetering on the brink. If the policy stands, many of the remaining NGO programs will be dismantled piece by piece over the next several years as old grant agreements expire. Bilateral programs cannot accomplish all or even most of what needs to be done and will themselves falter without the technical expertise provided by private NGOs.

We believe Congress must step into the breach, before it is too late. It was Congress, some two decades past, which forced a population assistance policy on a timid executive branch, and Congress which has consistently guided and nurtured the program with higher than requested appropriations and specific instructions for program direction. In all fairness, Congress should not now have to do battle again over issues thought settled many years ago. But the alternative would be a tragic demise for a program which has been one of our great foreign aid success stories. The outcome of the Population Conference in Mexico City, which reached unanimous agreement on a far-reaching World Population Plan of Action, symbolizes how far international attitudes have come since those early days in the mid-1960s when the United States was almost alone in urging world attention to population problems. If now our own commitment is allowed to falter we will indeed have snatched defeat from the jaws of victory.

Congress must directly challenge the implementation of the Administration's new Mexico City population policy by addressing the issue in the FY 1986 foreign assistance appropriations bill. Failure to do so may result in a dismantling of the vast network of multilateral and nongovernmental organizations, both at home and abroad, that have paved the way for government acceptance of the necessity of family planning services around the world.

ATTACHMENT 1

Comments of Major AID Family Planning Grantees on the Impact of AID's New Contractual Requirements

"We cannot see how the proposed language could be imposed upon our current grantees. Many would refuse. Worse, many would initially agree to comply, but would find compliance impossible, thereby exposing all parties. . . . In Africa, we estimate that as many as one-third of our total current projects would be jeopardized, including private clinics and hospitals where we support training. Hundreds of hours, months of planning, and sometimes years of effort have already been invested building relationships which are now fostering development of specific projects. Should the proposed language be implemented, much of this effort would be lost, as would a critical momentum for program development in Africa. . . . We estimate that at least 60% of all the institutions in Africa to which we award commodities would be open to serious question."

The Pathfinder Fund ($8.5 million in FY 1985)

"Although the Council does not perform family planning services in other countries, it subcontracts to dozens of hospitals, universities, government agencies, individuals and other NGOs in Asia, Africa, and Latin America. Abortion is legally performed in some of these institutions with non-USA funds. Yet the proposed clause attempts to restrict through organizations like the

Council funding that the US government does not and cannot control. It asks us to prevent people in other countries from doing what we can do here and what they can legally do there. Where abortion is legal, we are asked to rule it illegal (on behalf of USAID)."

The Population Council ($7.5 million)

"The clause would damage family planning programs by curtailing the work of the private sector, which has been, in my observation, the main source of innovation, the leader in introducing programs, and the model and standard for government programs in safety, quality, and concern for the client. . . . In the more than 43 countries where abortion is available to protect the health of a mother, and where access to health care is guaranteed by adherence to an international convention . . . or by constitutional or statutory provision, the proposed clause may require ngo's to violate those laws, exposing them, the cooperating agencies and possibly the U.S. government to civil or criminal liability in those countries. In any event, it seems outrageous to require private health agencies to agree not to perform or to refer to -- with their own funds -- a service that is legal in their countries and in ours."

Association for Voluntary Sterilization ($13.2 million)

"This effort to export to the Third World an aspect of the U.S. domestic abortion debate will not reduce the number of abortions overseas. What it will do is to hurt the work of the most effective and experienced private international family planning groups and the private overseas entities they have funded. These groups will have to scale back drastically precisely those health and family planning programs not involving abortion that the United States, through successive Administrations, including this one, has judged most important and useful. . . . The rules will require that an agency agree to act inconsistently with the health interests of its women patients not only by refusing to provide safe, legal abortions itself, but also by concealing the fact that such abortions are available at other medical facilities. . . . I want to reiterate our profound concern over the practical impossibility of our being able to comply with the apparent requirements of the policy and the clause -- that we police all non-AID funded abortion-related activities of all programs which we assist with AID funds. This is an impractical, unconscionable, and illegal burden to which we strongly object."

Family Planning International Assistance,
Planned Parenthood Federation of America ($13.8 million)

". . . As an international research organization, involved in the clinical aspects of the family planning effort, our primary resource is the researcher in the host country. This means for us, generally, that we are dealing with investigators who in addition to their research are practicing doctors of obstetrics and gynecology. . . . As OB/GYNs they are going to be involved in abortion discussions and many of them, because abortion is legal in their respective countries will have to do them as part of their duties in state supported institutions. . . . It would be extremely expensive and complex to maintain books and records even if possible, on which to base a certification that an individual investigator did not, under certain circumstances, perform an abortion for medically indicated reasons."

Family Health International ($6.9 million)

". . . AID audits of confidential [patient] records might constitute a violation of laws on medical codes in the host country. When considering the wisdom of adopting a policy requiring the intervention of AID personnel into the internal operations of foreign subrecipients to conduct audits of confidential records, some thoughts should be given to the antagonism such a requirement is likely to provoke and whether the requirement and resulting antagonism would impair the image of the United States."

Johns Hopkins University ($11.2 million)

"We are to require NGO sub-grantees and sub-sub-grantees to sign a document which we at Columbia University would not sign ourselves if so requested, since it puts restrictions on how funds obtained from sources other than USAID are to be spent. . . . As a physician I would find it unacceptable, even unethical medical practice to require family planning providers in a country in which the provision of abortion is legal, as it is for example in the United States, India and Bangladesh, not to be able to counsel or refer for abortion services, when indicated."

Columbia University ($3.1 million)

PREPARED STATEMENT OF RUSSELL E. MORGAN, PHD.

EXECUTIVE DIRECTOR

NATIONAL COUNCIL FOR INTERNATIONAL HEALTH

WHAT IS NCIH?

The National Council for International Health (NCIH) is a professional non-profit (tax-exempt 501(c)3) membership organization composed of more than 140 U.S. public and private organizational members and more than 2,000 individual members -- from every state and over 40 countries. It was established in 1971.

WHAT IS NCIH'S MISSION?

The mission or purpose of NCIH is to strengthen U.S. participation in international health activities.

NCIH ACTIVITIES

In carrying out its mission, NCIH undertakes a variety of activities--

- Conferences and Other Meetings Including Training Workshops
  - Annual International Health Conference
  - Annual Regional Meetings
  - Monthly International Health Seminars
  - Periodic Open Forums
  - Four workshops annually on a variety of topics to upgrade managerial and technical skills
  - Member registration discounts
- Printed Materials
  - International Health News (newspaper)
    Published bimonthly. Received through membership.
  - Books and Booklets
    Including conference proceedings, organizational directories, etc. See listing attached. Discount prices for members.
  - Interpretive Materials
    Brochures, news releases, etc.
- Policy Information/Analysis
  Identification and perspectives on issues affecting U.S. international health activities.
- Development Education
  Utilizing health fairs at corporate sites to promote management and employee interest in solving health problems of people in developing countries.

- Technical Cooperation
  Mobilizing U.S. private-sector resources to respond to health problems in developing countries.

FOR ADDITIONAL INFORMATION, please write to: National Council for International Health, 2100 Pennsylvania Ave, N.W., Suite 740, Washington, D.C. 20037, U.S.A. or telephone (202) 466-4740.

Mr. Chairman, Members of the Committee, I appreciate the opportunity to discuss with you the need for and importance of health initiatives within the U.S. foreign assistance program and the great opportunity before us to improve the chances of survival for children throughout the world.

The National Council for International Health is a professional, non-profit membership council of individuals and organizations from the international health and development fields. Its mission is to improve health world-wide by strengthening the U.S. response, both public and private, to international health needs. The NCIH pursues its goals through communication, development education, and membership support services.

Mr. Chairman, last year Congress appropriated--and AID is in the process of allocating--a total of $85 million additional funds specifically targeted to reduce mortality and morbidity among infants and young children in developing countries. Simple, inexpensive and proven interventions that could save children's lives are now available but require implementation. Among these interventions are oral rehydration therapy, immunizations, growth monitoring, and vitamin A therapy. In addition, efforts to improve nutrition, promote child spacing, provide clean water, and expand health education are also needed. The potentiality of significantly reducing child mortality, as well as the disabilities and handicaps resulting from preventable diseases, is greater now than at any time in recent years.

In FY'85 Congress accepted the challenge of turning this potentiality into actuality by appropriating $85 million toward this end: $50 million additional funds for the AID Health Account, $25 million for a specifically designated Child Survival Fund, and $10 million for the AID Nutrition Account. Projects to deliver necessary supplies and services are being funded. Additional people are being hired, personnel are beginning to be trained abroad, needed programs are being initiated -- all in an attempt to deliver the supplies and services necessary to save the lives of the more than 15 million children who needlessly die each year.

At this critical point in the initiative the Child Survival Action Program risks being undermined. No funds have been requested for FY '86 to carry through on child survival projects already begun nor to expand similar programs into other countries needing assistance. Little progress can be realized in one year's time. In fact, without following through on projects to which funds have already been committed, our members report that actual losses may unnecessarily be incurred through a hasty shutdown of viable programs. A start-up/shut-down approach to services sends mixed signals to participants and recipients alike, causing confusion over the intent and direction of U.S. policy, and is demoralizing to private sector groups which have made a commitment to health as a priority.

Moreover, not only have the especially designated funds for child survival and primary health care services received no funding request for FY '86, but the funding request to maintain health and nutrition programs, as normally allocated through AID, has also been cut. The following chart indicates the funding levels in question:

	FY'85 President's Request	FY'85 Approp.	FY'86 President's Request	FY'86 NCIH Recommendations
AID Health Account	$158 m.	$223 m.*	$146 m.	$223 m.
Child Survival Fund		$ 25 m.	-0-	$ 50 m.
UNICEF	$ 27 m.	$ 54 m.	$ 27 m.	$ 55 m.

*Includes $15 m. added appropriation for African health programs

The FY '86 funding request for the AID Health Account, the special Child Survival Fund, and the account for UNICEF are inadequate to maintain current program levels and obviate the opportunity to move forward with the potentially fruitful initiatives undertaken through the Child Survival Action Program. To adequately support current program levels and the cost-effective expenditure of recently allocated resources, the AID Health Account needs to be continued at $223 m. for FY '86. No expansion of the health account is being sought. The Child Survival Fund needs to be funded at $50 m. to assure both effective use of current resources and expansion of programs to additional areas within the 15 countries receiving these funds, as well as to other countries needing assistance. Furthermore, the funding request for UNICEF, which received a $53.5 m. appropriation last year, has been cut to $27 m. As a major provider of child survival services, UNICEF's role is significant. Funding for UNICEF needs to be reinstated upto a $55 m. level.

In sum, adequate coverage of basic health and child survival initiatives require FY '86 appropriations at the following levels:

AID Health Account	$223 m. (maintenance of FY '85 funding level)
Child Survival Fund	50 m. (increase of $25 m. over FY '85)
UNICEF	55 m. (increase of $1.5 m. over FY '85)

The National Council for International Health, after conferring with member organizations and others, has identified areas within the AID Health Account and the Child Survival Account that need further development and could justify responsible expansion of health and child survival efforts. A listing of these areas are attached for your information.

Mr. Chairman, I thank you for this opportunity to present these findings, and I would be pleased to answer any questions you might have. The National

Council for International Health is committed and stands ready to work with you and your colleagues to ensure that the important issues of health and the survival of children around the world receive the consideration they deserve.

A.I.D. HEALTH ACCOUNT
Areas Needing Further Development

I. Planning and Delivery of Primary Health Care Services

A. Delivery of services and supplies

--maintain and expand delivery of ORT and immunization programs within countries with existing programs

--introduce ORT and immunization initiatives to other countries needing assistance

--double funds for ocean freight to encourage private sector contributions to and participation of PVOs in PHC projects

B. Infrastructure development

--improve developing country capabilities (including training, management, logistical systems) in both public and private sectors

--develop greater cost-effective approaches to program design and financing mechanisms

--explore greater use of indigenous PVOs

--increase emphasis on private sector collaborative approaches

--promote operational research linking universities and PVOs

--identify clusters of U.S. universities with international health expertise in special areas, e.g., training, communications, anthropology

--fund positions in HHS for mobilizing government international public health expertise

C. Health education campaigns

--explore utilization of new technologies in delivery of services and education

II. Disease Control Research and Services

--redouble efforts in malaria control

--increase attention on respiratory infections

--extend and amplify biomedical research

--improve management of data systems in developing countries

III. Water Supply and Environmental Sanitation

--increase number of projects

--expand use of PVOs in W/S projects

--develop more cost-effective approaches to W/S projects, including local self-financing strategies

A.I.D. CHILD SURVIVAL ACCOUNT
Areas Needing Further Development

Delivery of Primary Health Care Services and Supplies

- --maintain and expand delivery of PHC services, including ORT and immunization programs, within the 15 countries receiving Child Survival funds
- --introduce PHC initiatives, including ORT and immunizations, to the many other countries with high infant mortality/morbidity rates needing assistance
- --expand and promote greater use of PVOs for PHC projects
- --emphasize more collaborative projects among and between PVOs and other institutions in developing countries
- --explore greater use of indigenous PVOs

Health Education

- --designate $1 m. for health development education under the mandate of of the Biden-Pell Amendment

FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1986

TUESDAY, APRIL 2, 1985

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:35 a.m., in room S-126, the Capitol, Hon. Robert W. Kasten, Jr. (chairman) presiding.

Present: Senators Kasten, D'Amato, Specter, Inouye, Leahy, and DeConcini.

AGENCY FOR INTERNATIONAL DEVELOPMENT

STATEMENT OF PETER McPHERSON, ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT

ACCOMPANIED BY:
- MARSHALL D. BROWN, DEPUTY ASSISTANT ADMINISTRATOR, BUREAU FOR LATIN AMERICA AND THE CARIBBEAN
- CHARLES W. GREENLEAF, JR., ASSISTANT ADMINISTRATOR, BUREAU FOR ASIA
- MARK L. EDELMAN, ASSISTANT ADMINISTRATOR, BUREAU FOR AFRICA
- BRADSHAW LANGMAID, JR., DEPUTY ASSISTANT ADMINISTRATOR, BUREAU FOR THE NEAR EAST

HEARING PROCEDURE

Senator KASTEN. The subcommittee will come to order.

Today, we will devote two hearings, one this morning and one this afternoon at 2 o'clock, to the Agency for International Development. This morning, we will concentrate on the regional bureaus, with this afternoon's hearing concentrating on operating expenses, the central bureaus, the trade and development program, and overall management questions.

PREPARED STATEMENTS

Peter, I understand that each of your regional assistant administrators has a prepared statement, in addition to your statement. We will insert all of the statements in the record, and they will appear in the record in full. If you would like to proceed as we did last year, where you made an overall statement, and then each assistant administrator made a brief comment before turning to questions, that would be most satisfactory.

[The statements follow:]

PREPARED STATEMENT OF M. PETER MCPHERSON

ACTING DIRECTOR

INTERNATIONAL DEVELOPMENT COOPERATION AGENCY

AND

ADMINISTRATOR

AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. Chairman, it is a pleasure to appear before you to present the Administration's FY 1986 proposed program for foreign economic assistance.

This is a difficult and challenging year -- from a budgetary standpoint -- for the development of a foreign assistance program which meets our foreign policy objectives within the tight fiscal constraints facing us. The Executive Branch and Congress are together confronted with the need to sharply restrain spending in order to gain better control of the Federal deficit and to keep the U.S. economic recovery on a sound footing.

A healthy American economy is important for reasons of foreign policy as well as domestic considerations. Our success in maintaining the strength of our economy is important to developing countries -- which depend on the United States as an important trading partner.

Notwithstanding the need to restrain the growth of the Federal budget, requirements for resources to pursue foreign policy objectives continue to increase. Our challenge is to find a way to meet these growing demands, and respond to new opportunities, with limited foreign assistance resources. We believe the FY 1986 foreign assistance request we bring before you does that. We have carefully focused our program on the highest priority foreign policy objectives.

In the face of proposed cut-backs in many domestic programs, it is more important than ever that we justify to the

American people the reasons why a strong foreign assistance program is crucial to the national interest. The FY 1986 request reflects our view, based on experience, that foreign assistance has proven to be an important tool in achieving foreign policy objectives.

As the Secretary has already testified, the foreign assistance program is critical to the achievement of some of our highest foreign policy priorities -- the promotion of peace in the Middle East, assuring access to such strategically important regions as the Persian Gulf and Southeast Asia and support for democracy in Latin America.

Economic growth in the Third World is also directly linked to the growth of our foreign trade and export capacity.

The foreign assistance program has also produced notable achievements in accomplishing our humanitarian objectives of helping developing countries to improve their own development prospects and to meet the basic needs of their people. I would like to cite some examples.

Especially promising are initiatives to transfer new health technology to the Third World. From the very gratifying results we have seen to date -- particularly in the area of improved child survival -- and research which holds promise of new breakthroughs in the near future, I believe it is fair to say, in fact, that we are on the verge of a "Health Revolution."

By teaching families how to use life-saving oral rehydration salts, we have demonstrated -- in country after country -- that the use of this new technology can produce a dramatic reduction in infant mortality rates. Similarly, our support for expanded immunizations has the potential for overcoming what are now major causes of death and diminished quality of life each year for millions of children in the Third World.

In addition, our support for key research is permitting A.I.D. to stay on the cutting edge of technology for child survival. The United States deserves, and has received, a great deal of credit for the technological breakthroughs on which our Child Survival Action Program depends. A.I.D. is committed to maintaining this leadership, specifically focusing on the rapid development and improvement of vaccines against the major killers of infants and children -- such as measles and malaria.

A second area, where I think there is both an acute need and the possibility of solutions through our technology transfer efforts, is the reversal of the long-term trend of declining per-capita food production in Africa. Through the foreign assistance program we have already successfully developed and released the first commercial hybrid of sorghum -- a major staple food crop in Africa. This new sorghum variety produces a 50 percent increase in yields. We are now funding part of a broad multi-donor research effort in Africa to develop new methods of dryland farming. We expect this effort to point the way to increased grain production under the semi-arid conditions widespread in the sub-Saharan region. And we are funding the development of new types of maize, tubers and other crops, as well as new methods of pest control, all of which hold the possibility of dramatically improving food production.

A second major element of the food production problem in Africa is governmental policy. It is clear that inappropriate policies on the part of African governments have held down food production. As a result, coupled with our agricultural research, we have initiated policy dialogue efforts in a number of African countries, as well as elsewhere. These efforts have helped focus attention on the need to change inappropriate policies and eliminate controls on market incentives to increased production. Through A.I.D.'s successful policy dialogue efforts, a number of African countries -- such as Zambia, Somalia, and Uganda -- have already made difficult but important policy reforms. And coupled with these continuing policy dialogue efforts, we are planning to use the $75 million that was included in the FY 1985 Continuing Resolution for new programs in Africa for programs that will encourage further policy changes. We have included an additional $75 million in our FY 1986 ESF request to be used to encourage further economic policy reforms in Africa aimed at increasing food production.

Another major area where we have had some particular success and on which we need to continue to focus resources is that of family planning. Successful A.I.D. programs in Asia have demonstrated our ability to assist developing countries in their efforts to implement voluntary family planning programs, when there is commitment of the part of the government. Our recent experience with contraceptive social marketing shows promise of becoming an effective new way to increase the distribution of population commodities.

Other areas of success in our foreign assistance program include increased involvement of the private sector in development. We have had particular success in stimulating the increased role of small and medium-sized agro-businesses in the development process in a number of developing countries. And we have increased the involvement of Historically Black Colleges and Universities in this country in the training of developing country participants from government and the private sector.

In the area of institution building, the foreign assistance program has helped significantly increase the level of training of future developing country leaders and the strengthening of their indigenous institutions. In Swaziland, where an expanding health system had outstripped the ability of its administrative systems to staff and support it, the establishment of an A.I.D.-funded Institute of Health Sciences has given the country a high quality institution for training its own nurses and health personnel. The Central America Business School, founded with A.I.D. assistance, is now a key technical resource in improving private sector export management capacity.

Our foreign assistance program has proven effective, too, as a vehicle for responding to the international humanitarian concerns of Americans -- providing worldwide disaster relief and assistance with crises such as that now facing Africa.

I could cite many more such examples. Through successes such as these, our foreign assistance program is effectively helping to meet the basic human needs of the poor majority of the Third World. It is contributing, thereby, to our foreign policy goal of fostering improved stability and progress toward economic self-sufficiency in the developing nations.

And finally, it is important to remember that the foreign assistance program is important from a domestic standpoint as well. A high percentage of the funds authorized and appropriated by the Congress for foreign assistance are spent in the U.S., creating jobs and stimulating exports; more than one third of all U.S. exports now go to Third World nations. Funding for crop substitution projects is an important element in our international efforts to counter the production and trafficking of narcotics.

In short, our foreign assistance program is on track, producing the intended results.

But we are faced with growing demands for the limited foreign assistance resources at our disposal in FY 1986.

o The drought in Africa, besides creating near-term famine, has accelerated the long-term decline in African food production, necessitating a significant increase in aid to that troubled region.

o Many countries are continuing to recover only slowly from the worldwide recession and oil price shock, and need continued balance of payments support to help them overcome pressing economic problems.

o Continued internal unrest and external aggression threatens the economic and political stability of countries in strategically important regions such as Central America and Southeast Asia.

o And we are confronted with new opportunities and challenges. In parts of Africa, governments need our help in finding solutions -- through economic policy reform and structural changes -- to complex economic problems that have been in the making for decades. In the Andes, emerging democracies need our assistance in overcoming internal unrest and confronting mounting economic problems.

In short, the combination of increased fiscal restraint and the need to apply resources to new demands has forced some very difficult budgetary and programmatic choices for FY 1986.

As a result, the FY 1986 request is a lean budget, closely focused on priorities. In developing this request, we have sought to carefully integrate the various components and programs which make up the overall request -- in order to achieve the coordination necessary to get the most from our aid.

To do so, we have made very active and, I think, effective use of the integrated budget process to strike the right balance in the level and kind of resources within countries and in the overall mix of foreign assistance. The result is a foreign assistance budget request which essentially retains the existing balance between economic and military assistance.

In addition to holding down our request for program funds, we have sharply limited our request for Operating Expenses --

as part of the government-wide effort to achieve greater economies in the management of Federal programs.

- To fit within the tight budget request level for Operating Expenses we have increased attention to operating efficiency. We are taking advantage of the fact that our major policies are now in place, allowing us to focus our attention, and our resources, on improving program implementation. We have already taken steps to revise the agency's programming system -- to achieve a more efficient use of staff both in Washington and the field.
- We are simplifying and streamlining the planning process.
- We are eliminating unnecessary elements of the agency's budgetary process.
- We are increasing the delegation to our field missions of responsibility for project development and approval.
- We are introducing new procedures to improve our oversight of management performance. We have initiated a new management planning process and regular program implementation reviews to assure that our program objectives are being met and that funds are being obligated in a timely manner.
- And we are undertaking new arrangements to make more efficient use of resources, such as the new cooperative arrangement we have established with the Peace Corps.

As a result, the FY 1986 program I bring before you has been reduced to its essentials. The request is the very minimum we think we can operate with, given the magnitude of the resource needs confronting us.

Details of FY 1986 Request

Our general approach in developing the FY 1986 request has been to hold levels in total to those in last year's request. Within the overall program we have made some marginal adjustments among programs to meet priority requirements.

- The request for Development Assistance is essentially the same as our FY 1985 request. For the Functional Accounts, including the Sahel program, the request totals $1.675 billion. Within the Functional account request, there has been some shift in the levels for individual programs.

-- The request for Agriculture is $792.5 million. This level is up about 5 percent over the FY 1985 level, mainly due to the need for increased assistance to Africa.

-- The request for Population is $250 million. Although down from the 1985 appropriation, due in part to declining requirements in Asia, the level was held to the same as last year's request.

-- The Health request, $146 million, also is down -- as a result of forward funding in FY 1985 made possible by the $75 million increase for new health and child survival activities. To maintain the momentum in health, we have accelerated the development of new health projects to come on line in the coming years.

-- The other Functional accounts -- Education and Selected Development Activities -- are down just slightly from last year's request levels.

-- The Functional account request also includes $20 million for the third year of capitalization of the private sector Revolving Fund through which we are helping finance increased involvement of private enterprises in development.

Also within the Development Assistance program we have requested $10 million for American Schools and Hospitals and $25 million for Disaster Assistance -- the same levels as we requested last year.

For the Economic Support Fund, we are requesting a total of $2.824 billion. This represents a slight increase from last year's request, excluding funding for Israel on which a decision has yet to be made. The increase is principally to accommodate the planned increase in Pakistan, and some new requirements in Latin America, which I will detail in just a moment, plus continuation of the African Economic Reform Program.

From a geographic standpoint, the allocation of DA and ESF represents some shifts among countries and regions compared to amounts we currently have budgeted for FY 1985.

-- In Africa, the request for DA and ESF is up by a total of $42 million over current FY 1985 levels -- principally in ESF -- distributed among several countries including Kenya, Zambia, Somalia, and Liberia. As I said, the request also includes $75 million for African economic reform. And of course, we are proposing a large food aid supplemental for FY 1985 to help meet immediate food needs.

-- In Asia, total DA and ESF is down about $45 million from current levels, due principally to the reduction in ESF -- back to our original 1985 request level -- for the Philippines, which had been increased this year as a result of the limitation on military assistance. DA reductions would also occur in Bangladesh, Indonesia, Sri Lanka, and Pakistan, the latter offset by our planned ESF increase in Pakistan.

-- In Latin America, the combined DA and ESF request is up about $100 million from the FY 1985 appropriated level, excluding amounts carried forward from last year's supplemental. This is due mainly to the $70 million total ESF program proposed for economic stabilization purposes for the Andean region -- Peru, Ecuador, and Bolivia. In addition, levels for El Salvador and for the regional programs in Central America and the Caribbean are slated to rise a total of $52 million to provide sorely needed support through projects resulting from the Kissinger Commission recommendations as well as the Caribbean Basin Initiative.

-- In the Near East, leaving aside the question of funding for Israel and excluding amounts budgeted in Lebanon from an earlier supplemental, DA and ESF is down a total of $18 million from currently budgeted FY 1985 levels. The net decrease is due mainly to a proposed $25 million reduction in ESF for Turkey, where economic progress is moderating the need for continuing high levels of assistance. This cut is partly offset by a $7.5 million increase in ESF for Morocco, which is taking hard measures to bring about a positive economic reversal of their troubled economy.

-- Centrally funded DA programs are down from FY 1985 levels by a total of roughly $65 million. The decrease is due mainly to the forward funding of population and health activities which has occurred during the current year as a result of the increases in those programs.

For PL 480, the total budget authority request, excluding the World Food Program, is $1.307 billion. The Title I request of $657 million in budget authority will support a program level of $1.030 billion, sufficient to provide 5.0 million metric tons to 33 countries. The request includes a new $35 million program for the Philippines, provided discussions with the GOP policy reform prove successful.

For Title II we are requesting $650 million, which we project will enable us to provide almost 2 million metric tons of food. Our FY 1985 request of $650 million at this time last year was projected to enable us to provide 1.7 million metric tons. So while our request is the same as last year in dollar terms, because of lower estimated commodity prices we will be able to provide more food. The Title II regular Voluntary Agency programs for Africa have been increased from the FY 1985 level and we have designated at least $25 million from the unallocated reserve for enhancement of these programs to help rehabilitate Africa from the effects of the current drought. We believe our FY 1986 request along with our FY 1985 reprogramming efforts and supplemental request will allow us to meet current projected food aid needs for Africa. Obviously, should conditions require an extraordinary U.S. food aid response to Africa in FY 1986, and available resources prove inadequate, we will consider requesting a supplemental appropriation.

For the Trade and Development Program, we are requesting $20 million, nearly the same level as last year's request.

Under Multilateral Assistance, we are requesting a total $1.348 billion for scheduled replenishments of the Multilateral Development Banks. In addition, we have requested an FY 1985 supplemental appropriation to cover unfunded prior year replenishment payments. For the International Organizations and Programs account we are requesting $196 million, up slightly from last year's request excluding IFAD, for which funding of the first replenishment was completed in FY 1985. We have not yet concluded negotiations on a second IFAD replenishment.

The FY 1986 for the Peace Corps includes $2.8 million for a new African Food Iniatitive aimed at improving food availability at the community level. A.I.D. and the Peace Corps are jointly planning the Initiative which will offer new potential for enhanced field coordination between the two agencies. The first year of the program is slated for two countries -- Mali and Zaire -- and eventually we plan to expand it to include between six and twelve African countries.

That concludes my opening statement, Mr. Chairman. I will be happy to respond to questions.

PREPARED STATEMENT OF MARSHALL D. BROWN

DEPUTY ASSISTANT ADMINISTRATOR
BUREAU FOR LATIN AMERICA AND THE CARIBBEAN

Mr. Chairman, I am pleased to be here today to testify on our proposed program for the Latin American and Caribbean countries in FY 1986.

INTRODUCTION

The first half of the decade of the 1980s has been a period of economic decline and political crisis in the Latin American and Caribbean (LAC) region. Per capita gross domestic product (GDP) in the region fell for three consecutive years -- 1981 through 1983 -- and rose by a scant 0.2% in 1984. Last year's figure was 9% below the 1980 peak. The combined external debt of the LAC countries stood at $371 billion at the end of 1984, and the burden of debt servicing will act as a powerful damper on economic growth possibilities for the rest of the 1980s. Economic recovery has also been hindered by an international economic environment that turned unfavorable with the oil price shock of 1979-80 and began to show significant recovery only in 1984. The prolonged economic crisis, which has significantly lowered living standards and raised unemployment rates, has contributed to greater social unrest and threatens the stability of the growing number of democratically elected governments in the region. Our interests require that we do all we can during the second half of the 1980s to help the LAC countries regain the economic and social achievements they had attained by 1980 after two decades of strong progress.

The threats to U.S. interests have been especially great in Central America. The region is suffering not only from armed conflicts and political unrest, but also from sharply lower real incomes, high rates of unemployment, heavy per capita debt burdens, unacceptable levels of infant mortality and illiteracy in some countries, and a lack of confidence on the part of potential private investors, both domestic and foreign. Nevertheless, U.S. assistance is having a positive impact. In 1984, for the first time in six years, none of the six Central American countries receiving U.S. assistance had negative economic growth. Per capita GDP even increased in Costa Rica, and El Salvador had its first positive GDP growth since 1978. Without U.S. assistance, these gains would not have been possible.

Sustained economic recovery, improvements in equity, and the protection of U.S. interests throughout the LAC region will require a high level of U.S. assistance for a number of years. The Congress already has recognized this with the passage of the Caribbean Basin Recovery Act in 1983, the appropriation of significantly higher levels of resources through the FY 1984 Supplemental and FY 1985 Continuing Resolution appropriations in response to the recommendations of the National Bipartisan Commission on Central America (NBCCA), and the authorization to use deobligations from around the world to et the problems of the Andean countries. The level of support for the region reached $1,149.8 million in FY 1984 and is planned at $1,751.4 million in FY 1985. The problems of the LAC countries are so deep-seated that even with relatively favorable developments in the world economy, greater reliance on the private sector rather than on central planning, and a return to domestic political/security tranquility, at least this level of official development assistance from the United States and significant amounts from other donors will be necessary throughout the 1980s to achieve a rate of economic growth sufficient to result in a broad-based recovery of living standards.

External assistance alone, however, cannot bring about a sustained, equitable economic recovery and protect our fundamental interests in the region. It is imperative that the LAC countries themselves play a major role in the accomplishment of these objectives by undertaking appropriate economic policy reforms to stimulate private investment, creating more favorable environments for democratic institutions, and assisting lower-income groups in coping with the temporary adverse effects of necessary economic adjustment measures. Steps in these directions have been taken, but much more remains to be done.

U.S. INTERESTS

The United States has major economic and security interests in Latin America and the Caribbean. By 1981 the region had become our second largest export market, purchasing $42.2 billion of U.S. exports. However, the economic crisis drastically lowered the region's foreign exchange availabilities, and LAC purchases from U.S. exporters fell to $25.8 billion in 1983, thus eliminating some 400,000 jobs in our economy. Although our exports to the LAC countries in the first ten months of 1984 rose at an annual rate of 14%, they are still well below their 1981 peak in real terms. U.S. investment in the LAC region amounts to 58% of all U.S. direct investment in developing countries. Its profitability has declined, and the financial position of many U.S. banks has been threatened by the inability of LAC countries to keep current on debt servicing. The economic crisis in the LAC region also has increased illegal migration to the United States.

Our major security interests in the LAC region include access to Mexican and Venezuelan petroleum, to other industrial raw materials, and to the unimpeded use of the sea lanes adjacent to North America and the Panama Canal. The region is also important to our efforts to limit the spread of nuclear weapons, the operations of international terrorist groups, the production and trade of narcotics, and the seizure of power by hostile forces. It has been a focus of our concern for improving respect for human rights and the strengthening of democratic institutions. The creation of eight newly independent nations in the Caribbean Basin since 1974 has heightened that concern, and has made it more important that the countries of the region share our views on issues arising in hemispheric organizations and international fora. Our security interests have required the U.S. Government to make strong responses to critical situations in Central America and Grenada in the last few years. They have also led us to encourage and support a strong trend toward the adoption of civilian democratic governments in the region. However, the difficulties that the LAC countries face in overcoming the current economic crisis pose serious threats to our security interests. Our response must be sustained for at least the rest of the decade. As the Bipartisan Commission has made clear, the threats to our security interests are especially strong in Central America. We are implementing the Commission's recommendations with vigor and determination.

MAJOR DEVELOPMENT PROBLEMS

Recovery from the present crisis will be difficult, and in many countries it is likely to be slow. A resumption of rapid economic growth will depend both on major economic policy reforms in the LAC countries themselves and on a strong world economy that resists protectionist pressures. Even with such favorable developments, progress in reducing the incidence of poverty will not be easy. The principal socioeconomic problems confronting the LAC countries are described briefly below.

Financial Disequilibrium. Expansionist government policies in the 1970s, combined with unfavorable external economic events in the 1980s, produced large fiscal and balance-of-payments deficits in many LAC countries. The recession in the industrial economies in 1980-1982 drove down sharply the prices of the region's primary export commodities and lowered the demand for its actual and potential industrial exports. The second oil price shock of 1979-1980 sharply increased foreign exchange outlays for the oil-importing countries, while the oil-exporting countries have suffered in the last two years as oil prices have turned downward. Higher debt-servicing requirements had to be met by drawing down foreign exchange reserves, and a number of countries adopted or expanded import controls. High rates of inflation, overvalued exchange rates, interest rate ceilings, and political uncertainties led residents of many LAC countries to send money abroad, further aggravating balance-of-payments problems. Banks and other private lenders significantly reduced their loans and credits to the region because of their concern with its economic and political problems as well as their own relative portfolio exposure in LAC countries.

As the depth of the economic crisis became evident, countries in the region began to recognize that economic stabilization measures were necessary to restore internal and external equilibrium and lay a foundation on which sustained economic growth could occur. In late 1984, 12 LAC countries were operating under stabilization programs supported by the International Monetary Fund (IMF), and in early 1985 several other countries reached tentative agreements for IMF assistance.

A.I.D. has supported stabilization programs in a number of countries in the region in the 1980s by increasing significantly the flow of ESF resources in response to the need of the LAC countries for substantially greater balance-of-payments assistance. The success of Mexico's stabilization efforts has received much attention. Less well known are the achievements under Costa Rica's 1983 program: a reduction in the fiscal deficit from more than 14% of the GDP in 1981 to 4.5% in 1983, a lowering of the inflation rate from 82% to 11%; a rescheduling of debts to public and private external creditors; relative exchange-rate stability; and conversion of a short-term capital outflow into a short-term inflow. Costa Rica had a positive rate of growth of per capita GDP in 1984. Jamaica has also implemented significant stabilization measures; Ecuador has made good progress; and most recently the Dominican Republic has adopted a major stabilization program. Most other countries, however, are finding it more difficult to meet the objectives of their stabilization programs. In part this is due to factors beyond their control, but often countries have been reluctant to undertake the politically difficult measures needed for stabilization and reform. Without such measures, financial disequilibria are likely to become more acute, and economic recovery will be delayed.

Unemployment and Underemployment. Four consecutive years of falling or stagnant per capita GDP in the region have taken a significant toll in the form of higher rates of unemployment and underemployment. Double-digit open unemployment rates are commonplace. In El Salvador the figure is estimated to be 30% or more. With labor forces growing by about 3% a year in the Central American and Andean countries, it takes a significantly positive rate of economic growth -- probably close to 5% a year -- just to provide full-time productive employment to new labor force entrants. Reducing unemployment and underemployment rates requires even faster growth.

External Debt Burdens. In an effort to maintain economic growth after the first oil price shock of 1973-1974, many oil-importing LAC countries borrowed heavily abroad in commercial markets. Oil-exporting countries also borrowed heavily to accelerate their rates of economic and social development. These borrowings continued in the 1980s in response to the second oil price shock of 1979-1980 and the decline in export earnings that occurred during the world recession of 1980-1982. However, the LAC countries did not foresee the depth and duration of the world recession or the steep rise in world interest rates that would add to their debt service burdens. For the LAC region as a whole, the public external debt was an estimated $268 billion at the end of 1984, and the private debt was another $103 billion. In the last few years there have been many debt reschedulings with public and private creditors, who have required that IMF-supported stabilization programs be adopted. Additional reschedulings will be necessary during the remainder of the 1980s.

Poor Prospects for Major Exports. During 1981-1983 coffee, bananas, and sugar accounted for 50% of Central America's commodity export earnings. Coffee is also a major foreign exchange earner in Haiti, as is sugar in the Dominican Republic, St. Kitts-Nevis, and Barbados, and bananas in Ecuador, Honduras, and the Windward Islands. Price prospects for all three of these commodities are poor for the rest of the decade, thus constituting a major impediment to economic recovery in countries that depend heavily on them. Similarly, the outlook is not good for bauxite, the principal export of Jamaica, Guyana, and Suriname. In the short run, a discouraging sign for commodity prices generally has been a drop of 12% between March and December 1984 in the IMF's index of commodity prices, ending a 16-month rise during which commodity prices partially regained ground lost during their steep decline at the beginning of the decade.

Structural Barriers to Export Diversification. The poor prospects for a number of traditional exports, combined with continued high debt-servicing requirements, makes rapid and sustained economic recovery in the LAC region more dependent on the development or expansion of nontraditional exports and particularly on agro-industrial products and other manufactures. During the 1960s and 1970s most LAC countries chose not to follow an export-oriented pattern of development but rather to pursue an import-substitution strategy, either individually or within the context of regional arrangements such as the Central American Common Market (CACM), the Caribbean Community and Caribbean Common Market (CARICOM), and the Andean Group. Even when this strategy was successful (as in Central America during the 1960s), the gains were relatively modest. By the 1970s new import-substitution opportunities were limited by the small size of the domestic or regional markets. This was particularly true in the Caribbean. Many existing import-substitution industries remained relatively inefficient but continued to operate profitably because they were protected by a high tariff wall. They were unable, however, to produce competitively for export markets. This remains a serious problem today.

Other barriers to exporting to markets outside the LAC region include six incentive structures that favor import substitution, lack of access to foreign exchange for exporters who need imported materials, insufficient access to credit, onerous paperwork requirements, and investment climates that discourage foreign entrepreneurs. In some countries, an overvalued exchange rate is the greatest single obstacle to export expansion and diversification.

Inadequate Spread of the Benefits of Growth. Progress in broadening the availability of education, health services, and housing was substantial in the 1960s and 1970s. The economic crisis of the 1980s, however, has halted much of this progress, leaving large segments of the LAC countries' populations still untouched. Health, nutrition, and educational services have almost certainly deteriorated in LAC countries that have been hit hard by the current economic crisis. Given fiscal constraints, the resumption of progress in these areas will require major improvements in the efficiency of service delivery. Substantial technical assistance and training will be necessary to achieve this. In addition, there will have to be a larger role for the private sector in providing these services.

Infrastructure Problems. Recent natural and man-made disasters have caused serious infrastructure losses in a number of LAC countries. Rural areas in Bolivia, Ecuador, and Peru were ravaged by floods which destroyed or damaged bridges, roads, irrigation systems, and other structures. Hurricanes struck a number of Caribbean countries, causing the greatest relative damage in Dominica. In El Salvador, guerrillas have destroyed bridges, blown up power lines, and damaged other infrastructure in their efforts to overthrow the democratically elected government.

These obvious losses, however, account for only part of the problem. Because of foreign exchange shortages, infrastructure that has deteriorated from normal wear and tear has not been repaired or replaced. Furthermore, capital budgets have been slashed sharply in many countries as part of the effort to reduce fiscal deficits. Because of all these losses, large investments in infrastructure -- with a considerable foreign-exchange cost -- will be necessary to sustain the process of economic recovery. The multilateral banks will help finance these costs, but the magnitude of the problem -- which has grown as the recession has lengthened -- will require our assistance as well. Much of this assistance will be provided from local currency counterpart generated by ESF and P.L. 480 programs. In some cases -- e.g., El Salvador and the Eastern Caribbean -- infrastructure construction and reconstruction will be directly supported by DA and ESF project funding.

Rapid Population Growth. Although the LAC population growth rate has been reduced from 2.8% in the 1960s to about 2.3% at present, the average growth rate is higher in the poorer countries which are being assisted by A.I.D. Moreover, labor forces are growing faster than population. Rapid population growth, combined with policies that have failed to achieve self-sustaining economic growth, has made it especially difficult for countries to meet objectives in health, education, nutrition, and other dimensions of welfare during a period of economic decline. In addition, greater population pressures without proper techniques for management of limited natural resources have contributed to soil erosion and other environmental degradation. Rapid labor force growth has aggravated problems of unemployment and underemployment.

Weakness of Democratic Institutions. Unrepresentative political systems, lack of respect for human rights, indigenous and foreign-sponsored violence by anti-democratic elements, and ill-defined legal norms inhibit economic growth and development by restricting economic opportunities for disadvantaged groups and by creating uncertainties for potential investors, both domestic and foreign. Progress in these areas has been made, but continued efforts are needed to consolidate and expand the gains achieved to date. Costa Rica and the English-speaking Caribbean have well-established democratic traditions, but other LAC countries have less experience with free elections, other forms of democratic participation, and clear and equitable legal processes. Representative political systems, respect for human rights, and equitable legal systems cannot be established overnight, nor can they be imposed from outside. But outside assistance can be effective in supporting indigenous efforts in these areas. We have been encouraged by recent progress toward the institutionalization of democratic institutions in Central America and the Andean countries, the return of participatory democracy in Grenada, and the consolidation of democracy in the Dominican Republic. Continued support for these efforts will improve their chances for long-run success.

STRATEGY AND GOALS

A.I.D.'s strategy for addressing the problems outlined above is to promote economic growth and poverty alleviation through support for four broad approaches: (1) economic stabilization efforts in the near term, (2) basic structural reforms to permit a sustained economic recovery and substantial job creation along more efficient lines, (3) efforts to promote greater equity in the principal sectors in which A.I.D. is supporting programs, and (4) programs to strengthen democratic institutions and human rights.

These approaches place relatively more emphasis on policy reforms and management improvements than did our programs in the 1970s because the problems of the 1980s require a major economic reorientation if growth and equity objectives are to be achieved. They also require more program assistance than project assistance in the short run. In addition, they involve more direct assistance to the private sector, both because the public sector's ability to absorb project assistance is limited by fiscal constraints, and because many private sector investments will be more productive in the short and medium terms. Still, the overall program remains targeted on the needs of less advantaged populations, emphasizing productive employment opportunities as well as access to health care, education, and other social services. It is a growth-with-equity strategy designed to bring about broad-based national development and to strengthen support for democratic institutions.

Given the increasing magnitude of the assistance to the region over the last several years, A.I.D. has carefully considered its capacity to manage, and the region's capacity to absorb, the increased level of resources. We have taken care to assure that the program does not exceed absorptive capacity. A comparison of levels of undisbured balances under A.I.D. programs indicates that the "pipeline" of undisbursed funds has actually fallen significantly in relation to annual disbursements. This improvement in part reflects an increase in the importance of more rapid-disbursing assistance to the private sector.

1. Stabilization. A.I.D. continues to encourage LAC governments to correct their macroeconomic disequilibria through stabilization programs. Most have adopted such programs, and we are encouraged by the success with which many of them have been implemented. Under these programs A.I.D. has cooperated with the IMF to provide foreign exchange to help cushion declines in economic activity while countries are laying the groundwork for economic recovery. These programs also make it possible for countries to reschedule their external debts, thus further relieving their balance-of-payments constraints. A.I.D.'s support for stabilization efforts has been made available through ESF assistance, which provides both an incentive for countries to take action (through appropriate conditionality) and a means to do so without incurring unsustainable social and political stress. Our goal is to have the LAC countries by late 1986 managing their external sectors on a current basis by eliminating arrearages and the need for further debt reschedulings and by restoring government fiscal equilibrium. Meanwhile, the need for stabilization assistance continues to be great. Indeed, significant amounts of such assistance are essential for preventing a further general decline in living standards. New ESF programs will be initiated in FY 1986 in Bolivia, Ecuador, and Peru to provide an incentive to these countries to accelerate the policy reforms needed to help stabilize their economies -- still suffering from the effects of extraordinary flooding and drought during 1982-84 -- and to help create an environment in which a sustained economic recovery can occur.

2. Structural Reforms. Economic growth will be faster, more employment- intensive, and more equitable for countries following a development strategy based on exports to external markets rather than one built around import substitution in highly protected domestic or regional markets. Export expansion provides the foreign exchange needed for imported materials and capital goods that generate higher productivity and increased living standards. Small economies with limited markets and narrow resource bases are especially dependent on imports, and most of the LAC countries we are assisting are in this category.

The enactment by Congress of the trade provisions of the Caribbean Basin Initiative (CBI) in 1983 has provided increased export opportunities to this area. But expansion of nontraditional exports also requires structural reforms to correct overvalued exchange rates, eliminate tariff structures that promote inefficiency and saddle potential exporters with high-cost inputs, and change policies that artificially overprice labor and underprice capital. Legal and institutional reforms are also needed to encourage investment. Better policies and a stable political environment could generate a real growth rate of nontraditional exports of 20% a year by the end of the decade. That growth would significantly increase job opportunities and generate revenues needed to extend the coverage of social services and to rebuild and expand the infrastructure required to sustain rapid economic growth.

The main elements of our strategy for achieving export growth and the associated increases in income and employment are:

-- continuing our dialogue with cooperating countries on needed policy reforms and conditioning our assistance on appropriate structural adjustment;
-- supporting the greater commercialization of agriculture, the sector employing the greatest number of people, particularly for small farmers;
-- increasing the availability of credit for production in agriculture and industry, particularly small industry, and for exporting;
-- providing technical assistance and training for small business operators;
-- assisting investment and export promotion and strengthening private-sector organizations;
-- assisting in the development of free zones, industrial parks, and other mechanisms which simplify infrastructure and administrative problems facing private entrepreneurs; and

-- financing infrastructure construction and improvements, especially for stimulating small-farmer production.

3. Overcoming Sectoral Constraints to More Equitable Development. The labor-intensive pattern of economic growth to be fostered through structural reforms will help the rural and urban poor through the creation of jobs. However, targeted programs also are needed to ensure that the benefits of growth will be widespread. Opportunities for the rural poor can be increased by providing them with greater access to productive resources, including land and credit, as well as by eliminating price controls and other disincentives to production. Improved access to education and health care in both urban and rural areas, and greater efficiency in the provision of these services, would enable the poor to take better advantage of employment opportunities. Over the long term, a reduction of population growth rates would make it easier for countries to meet their goals of reducing unemployment and raising living standards.

To address these sectoral constraints, A.I.D. will support programs to:

-- provide access to primary education for at least 90% of all school-age children, male and female, in those A.I.D.-assisted countries where this has not been achieved (Haiti, Bolivia, El Salvador, and Guatemala);

-- expand skills training, vocational training, and higher education programs to relieve key manpower bottlenecks to increased production and thus create more jobs both directly and indirectly;

-- improve health conditions, especially in rural areas, through malaria control efforts, dissemination of oral rehydration therapy, training of nurses and other health workers, and technical assistance and educational programs in the field of nutrition, thus lowering infant mortality rates to 75 per thousand or less and child death rates to less than 7 per thousand by 1988 in all A.I.D.-assisted countries where this has not been achieved (Haiti, Bolivia, Honduras, Peru, and Ecuador);

-- expand access to family planning information and contraceptive supplies, particularly through private institutions, to help bring about a reduction of the regional population growth rate from the 1982 level of 2.3% to 1.9% by 1988;

-- improve the access of poor rural families to land through support for colonization, legal reforms to provide secure land titles, and financing for land purchases;

-- provide better housing for low- and moderate-income families through technical assistance and, in Panama, a Housing Guaranty loan; and

-- assist refugees and displaced persons through programs that provide health services, educational opportunities, and productive employment.

4. Democratic Institutions and Human Rights. Economic growth will best support U.S. interests in the LAC region if it occurs in an environment in which governments permit their people to participate freely in local and national political processes; to form labor unions, cooperatives, and other voluntary organizations; and to have recourse to a judicial system that will administer justice fairly and speedily. Although the U.S. Government cannot dictate to governments how they should structure their political institutions and processes, we can provide our moral and financial support to those countries upholding democratic institutions and respecting human rights. A key element in U.S. economic assistance decisions in each country of the LAC region will be the degree of commitment of that country to free elections, independence of the judiciary, and respect for individual rights.

In support of this element of our strategy, A.I.D. will seek to strengthen the administration of justice through technical assistance, training, and material support for court systems, criminal investigative agencies, public prosecutors and defenders, justice ministries, law schools, and bar associations. A.I.D. will also provide assistance to improve the administration of elections. In addition, activities with private voluntary agencies will support the development of democratic institutions and processes by providing assistance to labor unions, cooperatives, women's organizations, and other participatory groups.

The process of democratization in the LAC region will also be supported by a major new training initiative, the Caribbean and Latin American Scholarship Program (CLASP), which will provide scholarships for study in the United States and in the region itself to approximately 7,800 individuals. Of this number, 7,000 participants are expected to be trained under the Central American Peace Scholarships project (CAPS) over the next five years, a direct response to the NBCCA recommendation that more Central Americans be provided training opportunities in the United States. An additional 3,000 or so participants will be funded under U.S.I.A. programs, bringing the total to more than 10,000. Training will focus on priority economic, social, and political development needs.

THE CENTRAL AMERICAN INITIATIVE FOR DEMOCRACY, PEACE, AND DEVELOPMENT

The A.I.D. Response to Date

A.I.D. has streamlined its mechanisms and increased the resources devoted to managing implementation of the new Central America Initiative. Staffing levels in U.S. Missions and the A.I.D./W Office of Central America have been increased by 25% as recommended by an assessment of needs. An accelerated program has been undertaken to develop and process program and project documentation which includes, inter alia, the designation of Central America as one of A.I.D.'s two top priorities and the delegation of increased authorities to our field missions. A.I.D. recently reviewed the assistance portfolio for the region to assure that Missions and host countries can adequately implement the growing program. The results were encouraging, for they indicate no unexpected buildup of undisbursed balances.

As of February 2[illegible], 1985, $210 million, or 58% of the total $358 million Supplemental Appropriation approved in August, had been obligated under agreements with Central American Governments; the remainder will be obligated before March 31, 1985. This includes balance-of-payments support which responds to policy reforms adopted in El Salvador, Panama, and Costa Rica.

A.I.D. also has moved quickly to establish new programs recommended by the NBCCA report. For example, as I noted earlier, A.I.D. and the United States Information Agency (U.S.I.A.) are cooperating on the implementation of a program to provide 10,000 scholarships to Central America. The scholarship program has now been designed and approved. It is anticipated that the first 400 students will have been selected and entered into educational institutions in the United States by September 1985.

Support for improved administration of justice has moved ahead quickly. A bilateral project in El Salvador has been approved, and activities in each of the countries have been identified for funding under a regionwide project. A Trade Credit Insurance Program Agreement was concluded with the Export-Import Bank in December 1984; agreements have been signed with 4 of the 5 participating countries; and operations are expected to begin this month. Options for strengthening the Central American Bank for Economic Integration (CABEI) have been analyzed, and A.I.D. is preparing an assistance project to be funded during FY 1985.

While Congress did not act on A.I.D.'s request for authority to create a Central American Development Office (CADO), as recommended by the Bipartisan Commission, A.I.D. has again proposed creation of an organization to provide a vehicle for regionwide consultation and coordination. Once approved, A.I.D. intends to undertake formal talks with prospective members to establish that organization.

Addressing Program Goals

Under the FY 1984 and FY 1985 programs, progress is being made toward achievement of the goals established in each of the four key elements of A.I.D.'s strategy in Central America:

-- Economic Stabilization: This is the first step in the economic recovery process, and it is essential for achieving the other goals. For Central America as a whole the decline in GDP has been halted. GDP grew by 1.2% during 1984, a major turnaround from the 3.3% decline in 1982 and the 0.7% decline in 1983. Growth was positive in all the countries of the region, although only in Costa Rica was the growth rate positive in per capita terms. Costa Rica sharply improved its fiscal and balance-of-payments position. Panama has made progress under a stabilization program supported by the International Monetary Fund (IMF). Belize has taken major steps to reduce its fiscal deficit. Progress has been slower in other countries, but positive steps include increased incentives to exports through parallel exchange market actions in both El Salvador and Guatemala. In Costa Rica and Panama, our assistance has supported the efforts of the government to deal with its severe external debt problem. We have assisted the Government of Costa Rica in reaching bilateral rescheduling of official debts within Paris Club principles. Based on the progess to date, commercial banks are expected to provide $75 million in additional lending during 1985

-- Laying the Basis for Long-Term Growth: The second element of our strategy focuses on the structural economic adjustment the countries need to make to move toward labor-intensive, export-led growth. There have been a number of important policy adjustments made over the past year. Belize has liberalized prices and taken other steps to encourage livestock exports; other reforms are expected to follow from the recently-completed agricultural sector assessment. Costa Rica has continued to adjust its exchange rate to maintain export competitiveness, has reached agreement on the terms of a new stand-by arrangement with the IMF, and is well advanced in its negotiations with the World Bank for a Structural Adjustment Loan (SAL). It has also enacted a currency law reform, expanding opportunities for private banks. El Salvador is encouraging non-traditional exports through activities supported by ESF assistance. The Government of El Salvador has also improved incentives to non-traditional exporters by permitting them to sell their earnings on the parallel exchange market, where the value is determined by market forces, rather than on the lower official exchange market. El Salvador has also made great progress in improving its overall foreign exchange management.

In Guatemala the recent legislation of a parallel exchange market to improve incentives for exporters without an official devaluation is an important measure for stimulating export diversification. Honduras, with A.I.D. support, has formed a Honduras-U.S. Joint Economic Working Group to formulate an economic stabilization program, and in mid-1984 the government enacted a package of measures to reduce the fiscal deficit. It is also implementing an A.I.D.-supported program to boost non-traditional exports.

Panama, supported by a World Bank SAL, has removed price controls on some commodities; introduced a tariff reform; and sold some public enterprises to private groups. The recently-elected government has committed itself to politically difficult economic reform measures which will reduce the fiscal deficit, help manage its large external debt burden, and stimulate more rapid growth in employment and production.

-- Equity and Broad Participation in Development: While the growth in labor-intensive production discussed above will have positive equity results, A.I.D. is also addressing the equity element of our strategy through targeted assistance projects. Belize is now developing a housing policy, the implementation of which would benefit low-income groups both by providing new or improved housing solutions and by creating new job opportunities. Costa Rica, with the help of A.I.D.-financed project assistance, has taken steps to improve the efficiency of its health services system. El Salvador is taking steps to strengthen the agrarian reform program and to increase productivity on reform landholdings. It is also greatly expanding its services for displaced persons under A.I.D.-supported programs, including food rations, health services, and productive employment opportunities. Guatemala is assisting the poor, largely Indian population of the highlands through programs in agricultural development, health services, and bilingual education. In Honduras, A.I.D.-supported projects have made significant progress in legalizing land titles for low-income families, boosting coffee production on small landholdings, and providing improved rural health services. In Panama a program supported by A.I.D. Housing Guaranty (HG) resources provided 2,000 housing solutions for relatively poor beneficiaries during FY 1984, creating some 1,000 jobs directly and indirectly.

-- Democratic Institutions and Human Rights: The final element of our program is support for progress towards democratic institutions and respect for human rights. The presidential elections in El Salvador and the constituent assembly elections in Guatemala were important milestones toward the institutionalization of democratic processes in those two countries. Democratically-elected governments are now in place in Costa Rica, Belize, Honduras, El Salvador, and Panama. With A.I.D. financing, the Government of El Salvador is implementing a project to revise the legal code, strengthen the administrative capabilities of the courts, and assure security for the judiciary and the judical process. A regional project is being developed to assist countries in the region to strengthen judicial processes, to provide administrative and technical support for the training of lawyers, and to assist professional law associations and other related institutions. A.I.D. assistance is also promoting the development and strengthening of cooperatives, democratic labor unions, and private voluntary agencies.

ACCOMPLISHMENTS IN THE CARIBBEAN AND SOUTH AMERCA

In the Caribbean and South America, we are also seeing progress in each of the four strategic areas of A.I.D.'s program focus. The following are some of the more notable recent accomplishments:

Stabilization: Ecuador has periodically adjusted its exchange rate and taken other successful actions to correct its balance-of-payments disequilibrium and it has eliminated its fiscal deficit. Both Jamaica and the Dominican Republic have implemented major stabilization programs centered on significant exchange-rate adjustments.

Structural Reform: Over the last two years, Ecuador has adopted a number of price liberalization measures, including reduced gasoline subsidies, elimination of some wheat subsidies, currency devaluation, and higher interest rate ceilings. Economic growth resumed in 1984. Jamaica has agreed to divest

30 publicly-owned productive enterprises and to diminish the role of the state coffee and citrus marketing organizations. In the Dominican Republic, nine rural savings branches have come into operation under the Rural Savings Mobilization project.

Equity: A Women's Training project in the Dominican Republic exceeded by 265% its target for intensive skills training in a poor urban neighborhood, and 108 women received small loans to start microbusinesses, with 60 loan applications pending as the project ended. In Jamaica, an evaluation of a Head-Start-type program with 121 pre-school centers, operated by CARE, found that those participating in the program benefited significantly, as measured by primary school attendance, retention levels, and other indicators. In Ecuador, several low-income housing projects are being implemented with Housing Guaranty Funds and associated Development Assistance grants.

Democratic Institutions: Private voluntary organizations (PVOs) supported by A.I.D. have encouraged the development of democratic institutions and processes by providing assistance to a variety of participatory groups. In Grenada, A.I.D. support for economic recovery helped provide a favorable environment for a return to participatory democracy.

FY 1986 PROGRAM REQUEST

In conclusion, let me briefly summarize the resources we are requesting for the LAC program in FY 1986. By appropriation, we are seeking:

-- $833.0 million in Economic Support Funds (ESF), with the following subregional breakdown:

-- Central America	$600.5 million;
-- The Caribbean	$160.3 million;
-- South America	$ 70.0 million; and
-- Regional Programs	$ 2.2 million.

-- $460.9 million in Development Assistance (DA), divided among the subregions as follows:

-- Central America	$268.6 million;
-- The Caribbean	$110.1 million;
-- South America	$ 57.4 million; and
-- Regional Programs	$ 24.8 million.

-- $257.3 million in P.L. 480 commodities, with the following subregional breakdown:

-- Central America	$110.8 million;
-- The Caribbean	$ 87.9 million; and
-- South America	$ 58.6 million.

By subregion, our total assistance request, including P.L. 480 resources, is:

-- $979.9 million for Central America;
-- $358.3 million for the Caribbean;
-- $186.0 million for South America; and
-- $ 27.0 million for Regional Programs.

These are significant sums of money compared to our assistance levels in the 1970s. But they have been made necessary by the depth and duration of the economic crisis in the region and by political/security threats to U.S. interests. As I stated earlier, U.S. assistance alone will not solve the region's economic crisis or ensure that current progress toward institutionalizing democratic processes will be maintained. But our assistance is having a significant positive impact in both of these areas. Our continued support at current levels of assistance will be needed for FY 1986 and most likely for the remainder of the decade.

Thank you.

PREPARED STATEMENT OF CHARLES W. GREENLEAF, JR.

ASSISTANT ADMINISTRATOR, BUREAU FOR ASIA
AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. Chairman and Members of the Subcommittee:

I appreciate this opportunity to appear before you to present the Asia Bureau's budget request for FY 1986.

A.I.D. assistance proposed for Asia includes ten bilateral and two regional programs in countries with a combined population of 1.2 billion and an average annual per capita income of $342. South and East Asia contain between 75-80 percent of the world's poor, whose incomes, food and basic consumption standards fall below what the World Bank considers to be the poverty level.

Incomes in A.I.D.-assisted countries in Asia are generally lower than on the African continent, Latin America and the Near East. South Asia, with the exception of Sri Lanka, has health and nutrition indicators which are lower than those of less developed countries as a whole. The very poor and generally large countries of South Asia remain the region's major development challenge for A.I.D.

The depth and breadth of Asian poverty have implications for economic, social, and political stability. Additionally, there have been recent political developments and challenges to stability in the region which are sources of increased concern: the continued Soviet occupation of Afghanistan and its designs to gain access to the Indian Ocean; communal tensions in Sri Lanka and India; the continuing mistrust and tension between India and Pakistan; and Asia's role as a source of illicit narcotics. The foreign aid request is aimed at mitigating political strains as well as promoting economic growth, stability, and well-being in the region.

There have been notable economic improvements in Asia over the past ten years:

-- In East Asia and the Pacific the 1983 growth rate of 7.1 percent equalled that of the 1960-1970 decade of solid growth. In South Asia the rate of growth was 6.5 percent.

-- The value of U.S. trade with all of Asia now outstrips our trade with Europe.

-- The total 1983 output of major foodgrains in Asian countries exceeded the record output achieved in 1981.

-- Between 1970 and 1980, life expectancy in Asia rose by more than three years. Crude death rates declined by 4.5 per thousand. Literacy rates steadily improved as primary school enrollment ratios rose from 71.5 to 81.1. The gaps between male and female literacy and school enrollment have declined.

-- The percentage of income earned by the poorest 40 percent of the population is generally higher than it was ten years ago.

Despite these impressive gains, the problems of hunger, disease and absolute poverty remain real for more than 550 million people in A.I.D.-assisted countries in Asia.

A.I.D. PRIORITIES

Poverty alleviation and the pursuit of U.S. national security interests remain the underlying purposes of the A.I.D. program in Asia. These concerns are met through adherence to the bureau's Strategic Plan, which covers the period FY 1985 through FY 1989.

The Asia Bureau Strategic Plan targets two sectors where U.S. expertise and resources are likely to have maximum impact: agriculture and population/health. The Asia Bureau Strategy also underscores four cornerstones of Agency policy. These cornerstones were adopted at the beginning of the Reagan Administration.

First, we are emphasizing technology transfer, as contrasted with capital assistance. Science and technology initiatives, for instance, are taking an increasingly important role in the Thailand and India programs.

Second, we are committed to building sustainable, effective institutions. A.I.D. assistance in agricultural research has played a key role in the development of a number of strong institutions, ranging from the International Rice Research Institute in the Philippines to national-level agricultural research institutions in that country and in Bangladesh, India, Indonesia, and Pakistan.

Third, we are committed to continued economic policy dialogue and reform. A.I.D. assistance to the Philippines, for example, emphasizes the need of policy reform, particularly in the agricultural sector. We have assisted the Government of Bangladesh to make significant policy changes in fertilizer pricing and distribution and in rural credit.

Fourth, the Strategy gives impetus to more intensive and creative efforts for private enterprise programming.

Country-specific private enterprise development efforts are under way in Indonesia, Sri Lanka, Thailand, the Philippines, and ASEAN. Other projects are being designed for Bangladesh, India and Pakistan.

LEVELS OF A.I.D.

Our total request for economic assistance for FY 1986 in Asia, consisting of Development Assistance, Economic Support Funds and PL-480 food aid is $1.082 billion; our FY 1985 level is $1.119 billion. This request is broken down by account in the Asia Program Summary table which follows.

ASIA PROGRAM SUMMARY
(thousands of dollars)

	FY 85 Request	FY 85 OYB*	FY 86 Request
Development Assistance			
103	287,002	263,647	271,696
104-Population	73,100	73,015	43,275
104-Health	37,900	44,907	34,155
Child Survival Funds	-	5,000	-
105	22,243	13,763	12,720
106	26,755	35,886	29,154
Total D.A.	447,000	436,218	391,000
Economic Support Funds	300,000	345,000	351,000
PL-480 Titles I and II	368,000	337,400	340,000
All ASIA	1,115,000	1,118,618	1,082,000

*As of 3/20/85.

Development Assistance

Our Development Assistance (DA) request for FY 1986 is $391 million. This DA request is down from our current DA level of over $436 million. Accordingly, we believe this year's request is a "bare bones" figure.

DA represents over half the proposed total economic assistance budget for Asia. It is devoted to major programs in India, Bangladesh, Indonesia, Pakistan, Sri Lanka, Philippines, and Thailand, with smaller programs in Nepal, Burma, South Pacific, Fiji, the Association of South East Asian Nations (ASEAN), and region-wide.

About 70 percent of the total Development Assistance request is earmarked for Agriculture, Rural Development, and Nutrition. We are concentrating these funds on projects in water management and agricultural research, two areas where A.I.D.'s expertise has the potential for making the biggest impact on food production and rural employment.

High rates of population growth throughout the region mean that A.I.D. will continue large-scale support for population and family planning programs wherever possible throughout the region. Our request for FY 1986 is down about $30 million in the population account from FY 1985. There are three reasons for this.

First, Indonesia and Thailand have increasingly assumed the costs of their own family planning programs, and now finance fully the costs of contraceptive commodities. Second, FY 1985 appropriations of population funds enabled us to fully fund new India family planning initiatives, eliminating the need for funds for these programs in FY 1986. Third, in the Philippines we still have an ample pipeline of unexpended funds from earlier years. Rather than putting more money into that pipeline, we prefer to pause and review closely the most effective measures to resume downward movement of the population growth rate. The reduced request for FY 1986 does not in any way, therefore, indicate a reduction in the priority which we give population programs in Asia.

One of A.I.D.'s long-term development objectives in Asia is to reduce infant mortality from a current regional average of 100 to 50-60 per 1,000 live births by the year 2000. To this end, the projects in the health account since 1984 have focussed on improving and expanding the delivery of cost-effective primary health care to those at the greatest risk of death. Health funds requested for Asia for FY 1986 are $34.2 million compared with $49.9 million in the current year, including Child Survival Funds. The supplementary health funds and child survival funds, which this year's continuing resolution made available, have enabled us to initiate several new activities aimed at reduction of infant and child morbidity and mortality; it largely explains the difference between the FY 1985 level and our FY 1986 request in the health account.

Our development assistance request also includes energy, environmental, private sector, and human resource development projects. We are requesting $12.7 million for Education and Human Resources activities. Our request for Special Development Activities is $29.2 million. A single project accounted for the large difference between the FY 85 level and the FY 86 request--Thailand's Science and Technology Development project, which required $15.1 million of SDA funds in FY 1985 but no additional funds in FY 1986. Our FY 1986 request includes funds for new private sector and science and technology development initiatives in Bangladesh, India, Indonesia, and the Philippines.

Congress eliminated the loan floor from FY 1985 aid legislation, an action that we hope will be continued in FY 1986. Our DA grant level this year and our proposed grant level for FY 1986 is higher than in prior years, on the assumption that continued loan floor elimination will give us flexibility. Such flexibility definitely enhances our ability for both policy dialogue and expanded use of private channels.

Loan-funded technical assistance is normally implemented through host-country contracting. Since grant-funded technical assistance can be contracted by A.I.D. directly, additional grant flexibility should also help us in carrying out Gray amendment objectives.

Economic Support Fund

The Economic Support Fund (ESF) request is for $351 million, for economic programs in Pakistan, Philippines, Thailand and a new, very small program in Fiji. Although we are requesting only a slight increase in ESF over current year levels, we plan to increase the loan-funded portion of ESF for Pakistan from 11 percent of the total this year to 22 percent in FY 1986.

PL-480

The PL-480 request for FY 1986 of $340 million will be integrated with Foreign Assistance Act programs in order to stimulate agricultural production increases, agricultural policy changes, rural employment, and nutritional support for "at risk" groups.

Philippines

In the Philippines, a major country of strategic interest in East Asia, we are requesting $36 million in DA, $95 million in ESF, $35 million in P.L. 480 Title I, and $7 million in P.L. 480 Title II.

The ESF request represents the Administration's judgment on economic requirements for the FY 1986 portion of the President's best efforts pledge conveyed to the Philippine Government at the time of the 1983 review of the Military Bases Agreement.

The DA level reflects overall budget austerity in this account. However, we believe it is sufficient to support private sector development channels -- such as the private voluntary organizations -- and contribute to our objective in encouraging public sector development efforts and economic reforms.

Our PL 480 Title I budget request, as well as possibly higher allocations we may be prepared to consider if overall budget and worldwide food aid requirements permit, will depend upon agreement being reached on a package of self-help measures in agriculture.

A number of events have taken place recently which bear on the formulation and implementation of our Philippine aid program. The Philippine Government and Central Bank have formally freed exchange rates and allowed the peso to float. The tax base has been broadened. Budget cuts have amounted to 30 percent overall in FY 1985, with special impact on public corporations which have proliferated in the past decade. Sharp limits on the money supply and tightly rationed credit began to put a brake on inflation, which had risen as high as an annual rate of over 60 percent last year.

These are all tough measures, and have caused real but probably unavoidable hardships for many people in the Philippines. Nonetheless, the collective effect of these developments should ultimately enhance the income-earning potential of the broad base of farmers and other Filipinos who derive their livelihoods from the country's resource endowment.

We are urging the GOP to help ensure farmers a fairer price for their products. The staple commodities of rice, wheat, and feedgrains are still subject to controlled markets, and the distribution and pricing of production inputs such as fertilizer and credit are still distorted by systems of subsidies, controls, and protectionism. Recently decreed policy and institutional reforms in the coconut and sugar sectors are important litmus tests for whether a more self-sustaining and equitable economic regime is being put in place.

One area of program management merits special comment. The Philippine Government's management arrangements for the ESF program have changed somewhat. The planning, administration and monitoring secretariat for the program was moved last fall from the Ministry of Human Settlements to the Office of the President. Mrs. Marcos has continued as chairman of the ESF policy council, although co-chairmanship now rests with the National Economic Development Authority, the principal government planning body. It is too soon to say whether these changes will result in smoother program implementation, but we have noted a marked improvement in local currency disbursements in recent months.

A.I.D. continues to monitor the Philippines program closely, through review of financial and implementation records and reports; project and program evaluations; on-the-ground inspections and implementing advice by a team of engineers and project development officers; and independent audits by our Inspector General's Office. We also have the right of refund for any monies not used according to agreed-upon purposes. The last ESF program audit, specifically of the schools project, scrutinized the effectiveness of internal controls over local currency disbursements for sub-project activities. There was no evidence to suggest misappropriation or misapplication of funds.

Indonesia

Our Indonesia request is for $60 million DA, $30 million in PL 480 Title I and $6 million in PL 480 Title II. The A.I.D. program focuses on: (1) increasing and diversifying food production; (2) improving watershed management and upland crop development; (3) improving primary health care and continuing family planning development; (4) expanding off-farm employment through private enterprise development; and (5) strengthening managerial and technical skills of selected institutions and staff in these sectors.

With careful economic management and implementation of economic policy reforms, Indonesia has recovered from the severe balance-of-payments deficit of 1982 which resulted from falling oil revenues. The GOI maintained budgetary restraint during 1984, introduced new monetary policy instruments to give the Central Bank greater control, and took limited steps to simplify business and industry licensing. As a result, the current account deficit declined from nearly $7 billion in 1983 to $4.2 billion in 1984, and is expected to decline further in 1985. Growth in GDP was about 4.5 percent for 1983-84. Foreign exchange reserves have reached $10 billion, approximately a four-month supply.

These achievements have been made in large part by slowing of expenditures on major capital projects, however, which will adversely affect future development. Agricultural production this past year reached record levels, but industrial growth remains sluggish. Economic stability has not yet been attained, due to the continuing uncertainties about agricultural production and continued reliance on oil revenues to drive the economy.

Thailand

We are requesting $22 million in DA and $5 million in ESF for

Thailand. AID has recently modified its development strategy consistent with Thailand's changing status as an emerging middle-income country. The new focus of AID's program is in science and technology, rural industries, and on continuing policy dialogue on crucial development problems. The ESF funds support villagers in rural communities affected by fighting on Thailand's borders with Laos and Cambodia.

In 1984 the Thai government put into effect a number of restrictive monetary and fiscal measures designed primarily to stem a record-shattering trade deficit that reached $3.9 billion in 1983. These measures included limiting total imports, clamping down on the growth of commercial bank credits and the government budget, and devaluing the baht by 15 percent late in 1984. Despite these measures, official Thai estimates are that the GDP grew by about 5.6 percent in 1984, compared to 5.9 percent during the previous year. In the immediate wake of the devaluation, the Thai Government is threatened with close to a $2 billion budgetary deficit during the current fiscal year. To counter the projected increase in the deficit, the Government has called for an across-the-board budget cut this fiscal year and has proposed a zero nominal budget expenditure growth for fiscal 1986.

The population growth rate has declined to an estimated 1.6 percent during the past three years, in large part because of Thailand's National Family Planning Program. Assuming present momentum is maintained, Thailand should reach its Fifth Development Plan target of 1.5 percent population growth by 1986.

Burma

Our request for Burma is $13 million, for a DA program focused on the key areas of maize and oilseed production, to improve rural incomes and nutrition; and primary health care, to reduce childhood mortality and disease.

Edible oils are second only to rice in importance in the Burmese diet. Our project in this area has increased both the total production and yields of maize and oilseeds, using U.S. commodities and technical assistance.

Burma's economic performance continued to weaken during 1984, with real GDP growth estimated to have declined to about one percent. A deteriorating balance-of-payments situation has resulted in a decline of foreign exchange reserves to $80 million, or enough to finance imports for only 1.5 months.

Other pressing economic issues include insufficient domestic energy resources and a growing debt burden that has caused Burma not to accept any new development loans.

South Pacific and Fiji

For the South Pacific Regional program, we are requesting $5 million in Development Assistance, for a modest program largely carried out through private voluntary organizations, the Peace Corps, and regional organizations. We are also requesting a small bilateral program to begin in Fiji in FY 1986, with $0.5 million DA and $1.0 million ESF. The decision to begin a bilateral program in Fiji was made primarily for foreign policy reasons. Although the precise nature of the new program has not yet been determined, the program is expected to consist of projects in agriculture and health.

The island nations included in our South Pacific regional program have economies dominated by agriculture, primarily subsistence agriculture. Given their small domestic markets, these countries are highly dependent upon external markets for their primary products. Modernization has escalated balance-of-payments problems as demand for imported goods and petroleum products increases while world prices for commodity and mineral exports remains low. Without agricultural diversification and increased production, improvement in export earnings and GDP is unlikely.

ASEAN

For the regional Association of South East Asian Nations (ASEAN) program, we are requesting $4.5 million in Development Assistance, focused on human resources development and on research in watershed management and energy conservation. This aid to ASEAN is part of our $19.5 million request for the Asia regional program.

The six ASEAN countries (Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand) are of growing importance to the U.S. Taken together, the ASEAN countries constitute our fifth largest trading partner. U.S. trade with ASEAN grew 11.5 percent in 1984 over 1983, with ASEAN buying almost $10 billion worth of American goods--more than 4 percent of our total exports. Two-way trade between the U.S. and ASEAN exceeded $22 billion in 1983 and grew at a rate of 13 percent through November 1984. Under the ASEAN program, A.I.D. funds programs which help ASEAN small and medium businesses to serve their national and international markets.

Pakistan

For Pakistan, we are requesting $250 million in Economic Support Funds (ESF), $25 million in Development Assistance (DA) and $50 million in PL 480 Title I. This represents our commitment for the fifth year of the six-year economic assistance program (FY 1982-1987) negotiated by the two governments in 1981.

The A.I.D. program is designed to provide foreign exchange resources to help meet the demands of structural change and economic liberalization. The program focuses upon three major policy objectives of the Government of Pakistan: (1) improved quality and quantity of social infrastructure, especially in health and family planning; (2) divestiture and deregulation of economic production and distribution functions to promote private sector participation; and (3) improved agricultural pricing and research policies necessary to achieve the GOP's ambitious growth targets.

The FY 1986 program emphasizes projects in agriculture and rural development, energy, health and family planning, training, and related activities, as well as the import of edible oils through PL 480. A substantial amount of U.S. aid is directed to Pakistan's two poorest provinces, Baluchistan and the Northwest Frontier Province.

Real GDP growth in Pakistan slowed to 4.5 percent in 1984 following six years during which it averaged over 6 percent. The slowing of growth in 1984 was due primarily to poor agricultural performance which resulted from adverse weather conditions and pest infestations. Pakistan's balance of payments recorded a total overall surplus of $94 million during the 1981-1983 period, despite a large deficit in 1982. Provisional figures for 1983-84 show a net deficit of $146 million. Remittances from overseas workers declined at the rate of 13 percent over the past year.

Balance-of-payments problems will continue, due to an estimated shortfall of $1.2 billion from previously announced targets for export and remittance income. Inflation is expected to remain in single digits. Unemployment, officially estimated at 4 percent, is probably much higher.

A.I.D.'s principal focus for narcotics reduction activities in Asia is Pakistan. A.I.D.'s $20 million Northwest Frontier Area Development Project in the Northwest Frontier Province was obligated in August 1983. This five-year project covers an area which has annually produced about 50 percent of all opium cultivated in

Pakistan. It covers an area of 215 square miles, where 116,000 people live.

We have been building roads, providing seeds and fertilizer and setting up demonstration plots of alternative crops such as wheat, fruit trees, peanuts, and vegetables. We will continue to enhance agricultural development through improving crops and livestock; providing irrigation and watershed management; further developing infrastructure; and creating more off-farm employment.

Development must, however, continue to be linked to enforcement. A.I.D. has invoked poppy clauses three times, and in each case officials of the Northwest Frontier Province reacted quickly. In April 1984 and January 1985 poppy fields were plowed up in the Gandaf area of the Northwest Frontier Area Development Project. Fourteen and one-half acres were also plowed up in the Bara irrigation area of the Tribal Area Project in April 1984.

To ensure that we deal with all opium poppy growing areas in Pakistan, A.I.D. assisted the Government of Pakistan in producing a Special Development and Enforcement Plan (SDEP) for major opium areas not covered by the Gadoon-Amazai project.

The SDEP is being carried out under the auspices of the UN Fund for Drug Abuse Control. The U.S. has contributed $5 million. The Governments of Italy and the United Kingdom have signed agreements to provide funds for this comprehensive plan. Other donors are expected.

India

Our request for the India program consists of $85 million in DA, and $93.5 million for the P.L 480 Title II program, the largest programs in both funding categories in Asia. A.I.D.'s Development Assistance strategy is to expand India's capacity to improve the balance between food, energy and population.

Considering the U.S. comparative advantage in certain scientific and technical fields, A.I.D. can have the greatest long-term impact by concentrating on expanding India's agricultural research capacities; improving the management of irrigation systems; developing institutions for local management of forest resources; and expanding and improving the quality of rural family planning, nutrition and health programs. These objectives require sustained technological innovation and long-term institution-building, drawing significantly upon U.S. expertise in private American institutions and firms.

Our Development Assistance efforts are reinforced by the Title II program. This program supports a multi-state school feeding activity and a nutrition education effort targeted on at-risk children; a food-for-work program that improves nutrition while creating productive rural assets; and the oilseed growers cooperatives project, an agricultural production and marketing effort.

Irrigation is an important focus of the A.I.D. program in India. For example, the Gujarat Medium Irrigation project provided support to 28 medium irrigation schemes, creating additional irrigation potential of 149,000 hectares and benefiting some 72,000 farm families. The resulting additional food grain production of about 175,000 tons annually will be enough to meet the basic requirements of 700,000 to 1 million people. About 310 construction engineers received training. This $30 million loan project was completed in FY 1984.

Our program is carried out against the backdrop of an Indian economy which has performed well over the past decade, despite oil price increases abroad and adverse weather conditions periodically at home. India's 7.6 percent growth in national income in 1983-84 was not unexpected given the fact that the monsoon was mild, and that it followed a year of depressed growth. We expect growth of about 3-4 percent for 1984-85. It is likely that India will achieve its average annual growth target of 5.2 percent in the Sixth Five-Year plan, which ends March 31, 1985.

The balance of payments, however, is now under pressure due to worsening terms of trade and slower export growth than planned during the worldwide recession. Medium-term growth prospects are not promising, as domestic production of oil peaks, technology-related imports increase and remittances from Indians working overseas fall off. Estimates for FY 1984-85 show further deterioration in the balance of trade with a $5.0 billion deficit.

Bangladesh

For Bangladesh we are requesting $78 million in DA, $70 million in Title III, and $19 million in Title II. The DA program gives highest priority to the goal of reducing human fertility, by supporting the use of modern family planning methods delivered by governmental and non-governmental programs. Agricultural productivity is being improved through efforts such as rural credit reforms. Rural employment activities are expanding, with particular emphasis on strengthening the role of markets and the private sector. Subsidy reductions are being made in fertilizer and foodgrain sales.

With continuous support for fertilizer distribution improvement since 1976, A.I.D. is helping the Bangladesh Government to shift from costly and inefficient public sector distribution system which relies upon subsidized input prices, to an expanded role for the private sector. The Government has moved retail distribution of fertilizer to private dealers; has agreed to permit them to assume an increasing share of wholesale distribution; and has steadily reduced the subsidy on fertilizer and other agricultural inputs. These policy reforms have resulted in a reduced burden of subsidies on the government budget, a probable reduction in distribution costs, record fertilizer sales in FY 1983 and 1984, increased agricultural production, and an enhanced role for the private sector.

The Title III program is an important vehicle for policy dialogue and reform in the food sector. The program's objective is to ensure a secure, sufficient food supply through efficient management of the foodgrain procurement and sales system, while providing adequate price incentives to farmers. Title II funds one of the largest Food for Work programs in the world, under which U.S. food serves as pay to laborers who upgrade rural roads, embankments and canals. The objective is to improve market access in rural areas through a combination rural road improvement and employment generation program.

Bangladesh's economic performance in FY 1984-85 will be better than anticipated a few months ago when heavy rains and extensive flooding resulted in substantial foodgrain losses estimated at between 1.2-1.5 million metric tons of rice. Economic adjustment measures and reforms taken in recent years, aided by a global economic upturn, are now yielding benefits. Despite last year's foodgrain losses due to a drought and this year's due to flooding, the economy in FY 1983-84 grew 4.5 percent and growth in FY 1984-85 probably will be only slightly less.

Still, there is a threat of inflation getting out of hand in FY 1984-85 because of excessive growth in the money supply. The balance of payments shows signs of significant deterioration with export growth expected to be only modest, remittances down from Bangladeshis working abroad, imports up, and a substantial decline in foreign exchange reserves. The Government used its own reserves in CY 1984 to purchase an additional 500,000 MT of foodgrains to offset flood losses. Given reasonable weather conditions, a modest rate of economic growth should continue through CY 1985.

Sri Lanka

The Sri Lanka request is for $32 million in DA, $26 million in Title I, and $3.7 million in Title II. The program is aimed at expanding food production, increasing incomes, and improving Sri Lankans' quality of life. Our major thrust in the rural sector has been in irrigation, including participation with other donors in the Mahaweli Basin Development program. Additional DA-funded activities continue in the health and private sectors.

The Title I program reduces Sri Lanka's food gap, supports food-related policy improvements, and generates local currency for rural development activities. In FY 1986 the request is to convert to a Title III program to enhance its developmental impact. The Title II program supports maternal-child health and school-feeding programs.

The Sri Lankan economy grew about 5 percent in 1984, better than expected in a year adversely affected by the 1983 communal riots and increasing insurgency. However, private sector investment has been slowed, and unemployment hovers at over 14 percent. Sri Lanka's economy is heavily dependent on imports of goods; the value of 1982 imports exceeded exports by 75 percent. The GSL is taking steps to try to improve management of its stagnating plantation industries, and in January 1985 Sri Lanka restructured taxes and tariffs to remove the incentive bias against exports.

Also of concern is Sri Lanka's external debt burden. By the end of 1983, the debt service ratio had risen from 11.3 percent in 1980 to 17.7 percent in 1983. However, the balance of payments situation improved by the third quarter of 1984, due primarily to tea export earnings.

Sri Lanka's current account situation and its balance of payments have thus far not reached a crisis state. However, there is concern that the Government's political/communal problems may cause it to avoid facing the hard structural and economic decisions which could lead to more rapid and sustainable growth.

Nepal

For Nepal we are requesting $15 million in DA. The portfolio focuses on agricultural development, arresting environmental degradation, irrigation management, family planning and health, and education. Major themes are institution building, manpower training, and transfer of appropriate technology. We are increasing our emphasis on access and participation by women in all aspects of the development activities we are supporting.

Agriculture, resource conservation and rural development projects will receive the bulk of the requested funds. We will continue and strengthen ongoing efforts to increase food production and rural incomes of the burgeoning population, and counter the destructive impact of humans on the fragile mountain ecology. Evidence is now coming in that our earlier efforts in these areas are beginning to take hold and a basis is being created for further gains in the coming years.

We are continuing a major project in family planning and health to help expand coverage of the national health services. In a major new initiative in child survival, oral rehydration therapy will be introduced into our health project, along with neonatal tetanus immunization and other procedures.

Particular stress is being given to increasing the training of women in the field of agriculture, in health and family planning, and in education. In addition, we are initiating a new project directed specifically to seeking effective incentives to extend the length of time young girls and women remain in the formal school system and to encourage more females to participate in informal education programs where available. By aiming to raise educational competence of females, spin off effects are expected in terms of more participation by women in economic activities and a greater acceptance of family planning methods.

We are not requesting this year an appropriation of Indian rupees for training of Nepalese in India, as we have done in the past. OMB has notified all executive branch agencies that Indian rupees will no longer be excess commencing in FY 1986. Therefore, we will absorb this important program within our DA availabilities.

A.I.D. and PRIVATE AND VOLUNTARY ORGANIZATIONS in ASIA

Private voluntary organizations (PVOs) play an important role in implementing A.I.D.-funded projects. As mentioned above, the PL 480 Title II programs are implemented throughout the region by a number of PVOs including CARE, CLUSA, and Catholic Relief Services. PVO's also receive dollar grants in a number of countries, in particular those with PVO co-financing projects, such as Indonesia, Nepal, Sri Lanka, the South Pacific, and Thailand. Many of the Bureau's human rights activities, programmed pursuant to Section 116(e), are carried out by PVOs.

ASIA BUREAU MANAGEMENT INITIATIVES

Delegation - FY 1986 will be the second year of the "Asia Bureau Experiment," a plan to strengthen the formulation of A.I.D. country program strategies and to decentralize the project authorization and implementation processes. As part of this experiment, Mission Directors have been given significantly increased authority for approving projects in the field. Thenew strategy and project review processes which have been developed allow both the regional bureau and its field missions to focus their efforts on major strategy issues only every three years, while extending to the latter greater autonomy in project design and implementation. This "Experiment" has proved so successful that similar revisions are currently being instituted agency-wide.

Evaluation - The decentralization of project authority has increased the importance placed on evaluation. The purposes of evaluation in the Asia Bureau are to improve our projects and programs by providing relevant, timely and, to the extent possible, empirically-based information to improve project and program decision-making; and "lessons learned" for application in project design and review and in policy and programmatic development.

Over the past several years, the Asia Bureau has worked to improve management of the evaluation process as a first step toward improving the use and quality of our evaluations.

With these improvements in evaluation management, the Bureau is now able to turn its attention toward improving the empirical basis and overall quality of our evaluations. A very high priority in the Asia Bureau over the next several years will be to support the development of data collection, monitoring and evaluation systems that are integral elements of project design. Ideally, such systems should generate empirical data which can be used to guide project implementation and be available as a basis for project evaluation. This, we believe, will lead to improved projects and higher quality evaluations.

Financial Management - All Asia Bureau missions have submitted a document describing "Mission Financing Policy and Procedures" to the Washington headquarters. These documents are part of a review process which will ensure that all project papers submitted for approval include realistic implementation and financing plans.

In addition, efforts on the part of the Asia Bureau to respond quickly and effectively to audit recommendations continue to bear fruit. In December 1982 the Bureau faced 74 open audit recommendations, including 47 outstanding (e.g. open for six months or more). By January 1985, there were 43 open audit recommendations, of which only 18 were outstanding; half of the latter are actions shared with another Bureau. We plan to continue the tight management practice that has led to this reduction in open and outstanding audit recommendations.

CONCLUSION

The A.I.D. program seeks to meet the basic needs of more than 1.2 billion people, many of whom suffer from poverty, disease, and malnutrition. Further, the program is designed to ensure that it is effective and efficient, and the U.S. taxpayers' money is used wisely.

I appreciate this opportunity to appear before you today, and am ready to answer your questions.

PREPARED STATEMENT OF MARK L. EDELMAN

ASSISTANT ADMINISTRATOR FOR AFRICA
AGENCY FOR INTERNATIONAL DEVELOPMENT

I am pleased to be here today to present to this Committee A.I.D.'s proposed program for Africa for fiscal year 1986.

This is a time of intense agony for the people of Africa. The famine dramatically reveals the struggle for survival that grips so many millions today and underscores the urgency of helping African nations overcome the growing development crisis they face. Most of them, despite commendable progress in the two decades of independence, remain extremely vulnerable to forces which they can rarely control. The famine shows how fragile human life is, and the instability of the international economic climate exposes the limited capacity of most African governments to overcome their problems.

As we all know, there are no easy answers, and there are no quick fixes which are going to reverse the current state of affairs in Africa. The need continues for a long-term, determined commitment to find the most effective way to increase productivity and to improve the conditions of daily life. If we can achieve some technological break-throughs in agriculture, there might be some dramatic progress relatively quickly. But more than likely we will continue to experience uneven development over a long period of time. On the hopeful side is the fact that even before the drought, and now perhaps because of it, we have begun to see a new phase in the development effort on the continent. The declining agricultural productivity and the growing economic crisis have led many African leaders to re-examine the direction of development. They are taking the initiative to find more effective means to stimulate growth. Over half of the countries have begun a process of policy reform and structural change. As this renewed effort develops, we and other donors are prepared to sustain this process. Therefore despite the current depressing situation on the continent, there is an opportunity for rebuilding the momentum for growth.

I. FY 1986 Request

The FY 1986 request reflects the growing Administration response to Africa's needs. Currently, the U.S. is the largest food aid donor, and the second largest bilateral donor to sub-Saharan Africa. In FY 1985, and again in FY 1986, our planned assistance levels for economic assistance and regular food aid programs exceed one billion dollars. In fact, in FY 1986 Africa does not share in the overall Agency reduction in Development Assistance.

Specifically in FY 1986, we propose:

$358 million for Development Assistance including the Sahel Program;

$462 million for Economic Support Funds; and

$225 million for P.L. 480 programs plus another $34 million for the World Food Program in Africa.

II. Where Do We Go From Here?

In response to the deepening crisis in Africa, A.I.D. is focussing assistance on (1) supporting economic stabilization and reform, (2) improving agricultural productivity, and (3) strengthening the human resource base. And underlying these is our strong view that policy reform is fundamental to progress in any efforts we undertake.

The declining per capita agricultural production, the continued dependence upon a few major commodities for exports, the increased need for oil and food imports, and the rigidity of state controlled economies have led to a staggering financial crisis in many African countries. The debt service burden is projected to reach eight billion dollars in 1986, which would make it four-times greater than in 1982. Between 1980 and 1984, the U.S. has participated in 29 debt reschedulings for 13 African countries. While the severity of the crisis varies among African nations, most of them face a deteriorating situation unless substantial policy and structural reform efforts are undertaken. Increasingly, through our programs for economic policy reform, commodity and sector support activities, and P.L. 480 Title I programs, we are prepared to support bold and imaginative economic reform initiatives by African leaders to help them reverse the downward spiral.

While we place increasing emphasis on confronting the macro-ecomomic problems, we also continue to concentrate on the agricultural sector and subsistence farmers. The fundamental importance of the role of agriculture in Africa is well known. Agriculture employs 70 percent of the population and accounts for nearly two-thirds of GDP. Since this sector of the economy so pervasively affects Africa, we must continue to place the greatest emphasis in our long-term development program on agriculture. More than half of our development assistance funds are allocated to this sector as has been the case for several years.

Along with this concentration on economic policy and smallholder agriculture, we will also continue to support basic education and skills training programs and efforts to expand rural health services including voluntary family planning programs. Let me now discuss our proposed program for FY 1986 in more detail.

A. Policy Reform

As I mentioned a moment ago one of the most encouraging signs today is the willingness of African governments to re-examine their economic policies. They are beginning to realize that their centrally-managed economies are not producing the growth they desperately need to provide the income, food, education and health services which can make daily life more decent. The disincentives of current policies in so many African countries are now a focus of concern by Africans and donors alike. Questions of pricing, quality of management, exchange rates and structure of marketing and distribution services are getting increased attention.

As a result, discussion is turning into action. A number of governments have begun a process of reforming parastatals, substantially increasing producer prices, liberalizing trade or foreign exchange policies, and reducing agricultural import subsidies. A.I.D. and other donors welcome this fresh perspective among African governments, and increasingly we have made policy dialogue the cornerstone of our programs.

In FY 1985, in response to the Administration's request for funds for a special policy initiative, the Congress provided $75 million in Economic Support Funds. We are requesting another $75 million in FY 1986 to continue this specific effort. We are undertaking this program in concert with other donors and with the World Bank.

The mere establishment of funds for a special effort in policy reform has already been productive. It has captured attention among most African governments and throughout the donor community. It has helped quicken the pace of policy dialogue. However, we will also use other resources -- DA, other ESF resources, P.L. 480 Title I -- in support of policy reform. And we will soon propose a new "Food for Progress" program to advance our efforts. If governments are going to take some reform actions, the need for resources will be substantial. In Niger, for example, we began in FY 1984 a four-year, $32 million agricultural sector grant designed to reorient agricultural import subsidy policies, promote increased border trade in livestock and other products, and encourage private trade in agricultural marketing. In other countries, Sudan, Somalia, and Zambia for example, we are using commodity import programs, as well as P.L. 480 resources, to support policy reform measures. We are also encouraging a greater private sector role in development. Progress will not be easy. Tough decisions must be made. But there is no practical alternative to renewing Africa's productive capacity.

B. Agriculture, Rural Development and Nutrition

In FY 1986 A.I.D.'s request for the Agriculture, Rural Development and Nutrition account includes $155.3 million for Africa. This amount represents 55 percent of the Development Assistance request for Africa. This is in addition to the Sahel Account which is even more heavily focused on

agriculture. These funds are directed toward the long-term requirements for economic development and the needs of the small farmer. A substantial portion of our programs are for the development of institutions involved in planning, research, extension, and training so that farming technologies and resources can be more effectively used by farmers.
African agriculture has been less affected by technological change during the past twenty years than agriculture on any other continent. In this situation, agricultural research has become critical. Unless and until we can develop more technical knowledge of what works and what can be applied by the average small farmer in Africa, the lives of most Africans are not likely to change for the better. Broad-based research efforts are underway on regional and national levels. A.I.D is supporting intensive research programs in 25 countries.

New technologies can be developed. In Sudan, A.I.D.-supported institutions have developed the first commercial sorghum hybrid. This variety increases yields by at least 50 percent, and there appears to be private sector interest in commercial production of the seeds. If at least 25 percent of the total seven to eight million acres of sorghum grown each year in Sudan could be planted in this hybrid, it would double total sorghum production and easily resolve any food deficit in Sudan. Promising research results are also in sight for maize, cowpeas and tubers among other crops.

The limited institutional capacity in Africa reduces the effectiveness with which new technologies can be applied. Therefore in our technical assistance programs, A.I.D supports development and expansion of extension services. We are also encouraging an expanded private sector role in marketing and distribution. In Cameroon, A.I.D. focuses on developing an agricultural education, research and extension system based on the U.S. land grant model. We are also assisting in developing a system for producing and distributing high-quality seed for peanuts, corn, sorghum and millet. In Kenya, we have underway a major effort to expand rural private enterprises. We estimate that success in this activity will create up to 20,000 new jobs directly or indirectly. At the same time we are starting a new project to strengthen that country's national research system which is critical since only 18 percent of Kenya's land has good agricultural potential. In Zaire several projects are targeted on expanding marketing and transport infrastructure necessary for increasing small farmer production. In Zimbabwe, A.I.D. provides agricultural commodities primarily for the private sector, and the local currency generations are used to finance, for example, expansion of agricultural education institutions, extension services and cooperative development. In Mozambique and Madagascar, A.I.D. is initiating new assistance programs aimed at rehabilitation of the agricultural sector.

A.I.D.'s program also includes projects targeted on combatting depletion of soil resources. For example, forestry projects combining tree planting with land use planning and management and including popular participation are continuing in six countries. A.I.D. is also supporting research efforts to develop fast-growing trees which can help halt the spread of deserts.

C. Population Planning

A.I.D is requesting $23.9 million for bilateral programs for Africa from this account in FY 1986. This is three-times the level for bilateral programs in FY 1982 and does not include an additional $5 million in the Sahel account. Nor does the level include activities in Africa funded through the Science and Technology Bureau. Through all of these sources, A.I.D. is reaching 40 African countries. Our efforts continue to develop a capability to provide voluntary family planning services closely integrated with health programs.

By the year 2000, the total population of Africa is projected to reach 680 million, nearly double that of 1980. African leaders are increasingly aware of the implication of population growth. Seven governments have official population policies supporting voluntary reduction of birth rates. Twenty-four countries have national population commissions, private family planning associations or similar organizations.

In FY 1985 and 1986 we plan new projects in four countries (Burundi, Ghana, Kenya, and Sudan) and three Sahel countries (Mali, Burkina Faso, and Senegal). In Kenya, the country with the highest rate of population growth in the world, we are starting a major new project aimed at expanding delivery systems which will support both governmental and private organizations. In FY 1986 A.I.D will fund bilateral programs in 10 countries as well as two regional programs.

D. Health

In FY 1986, A.I.D. is requesting $28.4 million for health programs in Africa. Reducing health problems in Africa is closely related to improvement in agricultural productivity and reduction in the population growth rate. A.I.D's program continues to focus on expanding primary health systems in rural areas. Most of our assistance is allocated to efforts to improve management and planning, training of personnel, and treatment of diseases, particularly communicable childhood diseases.

The largest single activity we finance is the regional project aimed at reducing childhood communicable diseases for which we are proposing $12 million in FY 1986. This project, carried out with other donors, strengthens the capacity of governments to provide selective, proven health care technologies. These technologies include immunization against six major childhood diseases, oral rehydration to treat diarrhea (ORT), and treatment of malaria. In concert with other donors, this project will cover most of sub-Saharan Africa.

Other major bilateral health projects are underway in Malawi, Somalia, Zaire, and Liberia. Last fall A.I.D signed a cooperative grant with Howard University for a project in Malawi combining health and family planning activities. The project seeks to develop an innovative primary health care program which will include user fees as part of the effort to reduce recurrent costs. The $6.5 million grant to Howard is the largest cooperative program A.I.D has ever signed with an historically black institution. In Zaire, A.I.D is supporting expansion of rural health services, creation of a School of Public Health, and provision of health care and safe water supplies in the Shaba region.

A.I.D will continue to work with African countries and other donors in addressing health constraints on a focussed and selective approach. We will support expansion of health technologies such as ORT for diarrhea and immunizations for communicable diseases. These services will be provided in ways that do not overwhelm the capacity of governments to sustain them.

E. Education and Human Resources

For FY 1986 AID requests $55.2 million for programs for Africa from this account. Basic education and skills training are fundamental to sustaining development programs in Africa. A.I.D.'s effort in this area is devoted to improving primary education, increasing the skilled workforce and improving the quality of management.

The largest single training activity is a regional project covering most of Sub-Sahara Africa under which about 1000 participants receive training each year. In Kenya, a major new training project will begin in FY 1986 focussed on providing high-level technical training, while in Cameroon, Lesotho, and Liberia projects are underway aimed at expanding primary education systems. In Somalia a project is being developed to strengthen management skills.

F. Selected Development Activities

These activities, for which $14.4 million is requested in FY 1986 for Africa, address cross-sector development problems and support efforts to broaden private sector participation in development. Projects include assistance to a number of African institutions such as the African Development Bank and others engaged in such fields as water use, credit union development, and economic integration. In Sudan and Burundi projects focus on increasing energy resources such as fuelwood and peat.

G. Sahel Development Program

The FY 1986 request for the Sahel is $80.5 million. Although a decrease from the FY 1985 level, this request does not reflect a diminished interest in the region. The impact of the drought has slowed project activity in some countries, and the availability of some prior year funds permits a lower request level. The region has suffered considerably in the current drought, and substantial emergency assistance has been required. The proposed FY 1986 program consists of a combination of project and non-project assistance designed to encourage significant policy reforms, food self-reliance production, training, family health and stabilization of the national environment.

In Senegal, Mali and Niger, A.I.D is already involved in significant policy reform dialogue. In Niger, A.I.D is working closely with the government to bring about policy changes contributing to greater private sector activity and small farmer productivity. In Senegal, a major part of our effort involves reforms in the pricing and marketing of fertilizer and rebuilding the private sector marketing infrastructure. In Mali, a major focus is on accelerating agricultural pricing and marketing policy reform and reducing the government sector. In support of increased agricultural productivity throughout the region, A.I.D.'s program addresses both dryland and irrigated farming as well as livestock production. Agricultural research is an important component of the program as is a continuing examination of the potential of the Sahel's major river basins. Other significant activities focus on seed production and crop protection.

Although the emphasis is on agricultural development in the Sahel, there are also a number of activities in the health and training sectors. Rural family health projects are underway in Senegal and Niger; a new project is planned in Mali. In addition, through the regional program, there are projects supporting oral rehydration therapy and family planning. Similarly the regional program includes funds for participant training and, in particular, for financial management training to help improve fiscal accounting and monitoring of development programs in Sahelian countries.

H. Economic Support Funds (ESF) for Stabilization and Growth

The Administration is requesting $461.5 million for Africa programs from the ESF account in FY 1986. ESF is critical to providing the economic stabilization needed today so that our Development Assistance programs can produce economic growth tomorrow. These funds provide resources to assist countries of particular security or political importance to the U.S.by supporting economic policy reform. Programs usually consist of balance of payments and budgetary support and are linked to policy reforms which promote economic recovery. In many cases, ESF supports long-term economic development needs. This is done either directly through supporting projects as in Botswana, Chad, Zaire, Zambia, and the Southern Africa Regional programs and indirectly through local currencies generated by the programs such as in Zimbabwe. In many instances, ESF supports our priority interests in stimulating agricultural productivity and expanding the role of the private sector. In FY 1986 ESF is requested for 16 bilateral programs, and one regional program. In addition, $75 million is requested to continue our targeted policy reform program.

In East Africa, ESF programs in Kenya, Somalia and Sudan are closely linked to structural adjustment programs centered primarily on stimulation of agricultural production. In Southern Africa, we propose continuation of the commodity import programs in Zimbabwe and Zambia as well as some project assistance. In Zimbabwe this program channels a minimum of 80 percent of the funds to the private sector. In Zambia the program is closely tied to agricultural development. In Botswana ESF consists of projects in agriculture and education. The Southern Africa Regional Program includes funds for improving the quality of education for disadvantaged South Africans. The program funds university level education in the United States as well as education and entrepreneurial skills training in South Africa for black South Africans. In Zaire, A.I.D. will initiate a project in Central Shaba to assist small farmers primarily through improved marketing infrastructure. In the Sahel, the ESF program will provide funds to support a structural adjustment program in Senegal, agriculture sector development in Niger, and road rehabilitation in Chad. In Liberia the ESF will provide budgetary support to assist in creating the basis for economic recovery.

I. P.L. 480 - Titles I and II

The FY 1986 request for P.L. 480 is $162.5 million for Title I and $62.4 million for Title II. The growing number of food deficit countries in Africa during the 1970's led to an expansion of the food aid program. Countries receiving concessionally financed food aid, Title I, III or Title II (including Section 206), have demonstrated a need for external resources to improve their food production, marketing, distribution, and storage systems. They also have shown the ability to use the resources made available through the sale of food commodities and have agreed to undertake self-help measures to expand and improve production, storage, transport, and distribution of agricultural commodities. Self-help measures vary from country to country. For example, P.L. 480 wheat sales to Sudan were used to secure the elimination of subsidies on bread, thereby reducing a budgetary drain and encouraging domestic production of alternative foodstuffs.

Title II (Section 206) program recipients are typically LLDC's which require highly concessionary food aid, face recurring structural food deficits, and experience relatively frequent food emergencies. There are currently four Section 206 programs being carried out in Burkina Faso, Cape Verde, Mauritania, and Mali.

The Title II grant program's objective is to alleviate hunger and malnutrition of peoples in the poorest countries of the world. Women, infants, preschool children in maternal/child and day-care centers, older children in school feeding programs, and adults in food-for-work projects are priority recipients of Title II food assistance. CARE and Catholic Relief Services (CRS) are the two major voluntary agencies using Title II resources in regular ongoing programs.

J. Program Management

I strongly share the Committee's keen interest in effective management of our African programs. There is no higher priority for me than to make certain that our programs are managed effectively. I have carefully reviewed our FY 1986 proposed programs and have made a strong effort to restrain sector and project proliferation by substantially reducing the number of new project starts in FY 1986. I have told our field missions to focus more effort on sound implementation of their ongoing portfolio. As the Committee knows well, development in Africa is challenging. There will be difficulties. There will be mistakes. There will be disappointments. But we must use these experiences to improve our future endeavors. At the same time, I am conscious of the very difficult circumstances in which A.I.D. operates and am pleased with the commendable efforts our USAID Missions have made to achieve effective programs.

In conclusion, I wish to re-emphasize my view that despite the overwhelming problems facing Africa today, there is hope. The increasing willingness of African leaders to undertake economic reforms provides a new opportunity to revive growth on the continent. We are proposing a closely integrated program of assistance which maximizes our support for what must be an African-led renewal. I hope that working together we can contribute to a lasting improvement in the quality of life of the African people.

PREPARED STATEMENT OF BRADSHAW LANGMAID, JR.

DEPUTY ASSISTANT ADMINISTRATOR
BUREAU FOR THE NEAR EAST
AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. Chairman and Members of the Committee:

I am pleased to discuss the President's request for economic assistance to countries in the Near East region. The President is requesting $1,229 million, consisting of $1,177 million in Economic Support Funds and $52.2 million in Development Assistance funds. Attached to this statement, which I am submitting for the record, is a table which summarizes the Administration's request. Under a separate appropriation, $276.5 million in Public Law 480 Titles I and II is also planned for countries in the Middle East. This request does not include funds for Israel which will be submitted separately.

Our request for countries in the Near East includes $910 million in Economic Support Funds and $48 million in Development Assistance. Our request for countries in Europe is $245 million under ESF, and for regional projects we are requesting $22 million in ESF and $4.2 million in Development Assistance.

THE NEAR EAST

The Administration's primary objective is to help bring a just and lasting peace to this crisis-torn area. Our economic assistance programs are designed to support the efforts of those governments which are undertaking risks on the road to peace, by addressing some of their pressing economic and long term development problems. Certain of our programs are directed at helping those countries which provide important access to the region for U.S. forces and support the latter's deployment in time of crisis. Through our support of long term economic and social development as well as economic stabilization programs, A.I.D. helps strengthen the recognition that the U.S. is dedicated to the security and well-being of all friendly states in the area.

EGYPT

For Egypt in fiscal year 1986, we are requesting $815 million under the Economic Support Fund, the same level Congress appropriated in FY 1985. In addition, $222.1 million is requested under PL 480 -- $213 million under Title I and $9.1 million under bilateral Title II programs. We propose that the ESF resources be made available as grants, continuing a policy set by Congress in FY 1981. PL 480 Title I would be provided as a loan payable over 40 years, including a ten year grace period. Interest on the loan would be two percent during the grace period and three percent thereafter.

The main components of the Egypt Economic Support Fund program are:

-- A balance of payments support program consisting of a $200 million Commodity Import Program, a $100 million cash transfer, and $213 million in PL 480 Title I food assistance.

-- A $300 million economic infrastructure program including $200 million for the high-priority wastewater rehabilitation and expansion programs in Cairo, $15 million for the Aswan High Dam rehabilitation program, and $85 million to stimulate local capacity for development through the Decentralization Sector Support program.

- -- $142 million to help increase production and productivity in industry and agriculture.

- -- $73 million to strengthen essential social services in areas such as family planning, health, education, and training, plus $9.1 million in PL 480 Title II in support of private voluntary activities.

This proposed FY 1986 assistance is consistent with Egypt's five year plan and builds upon the significant improvements in implementation of our ongoing program. It emphasizes greater concentration, impact and visibility.

This assistance effort is increasingly making itself felt in Egyptian life:

- -- Program implementation has accelerated steadily in the past two years. Expenditures exceeded new obligations for the second year in a row since the resumption of U.S. assistance in 1974. ESF expenditures in FY 1984 totalled $905 million and total expenditures including PL 480 were $1.169 billion. For the second year in a row the pipeline was reduced. From a peak of nearly $2.7 billion at the end of FY 1982, it dropped to about $2.4 billion at the end of FY 1984.
- -- The number of projects has been reduced from 79 in 1981 to an estimated 63 in 1986 programs concentration will continue as most new programs build on past successes.

-- The Decentralization Sector Support program has completed or has under way some 5,500 local infrastructure and service activities touching the lives of about 32.5 million people out of a total population of about 47 million.

-- Public awareness of family planning has grown and the use of modern contraceptives has increased. As a result, the population growth rate has declined from 3 percent in 1980 to 2.7 percent in 1983, according to Government of Egypt statistics.

-- AID investments in telecommunications are resulting in improved telephone service in Cairo. The first new telephone exchange began service in December 1983 and two additional exchanges started operating in FY 1984, providing service to 6.5 million subscribers.

-- The Suez cement plant is producing cement and the Quattamia cement plant will be completed within a year. These plants increase Egypt's domestic cement production by 60 percent, and together with other plants under construction should satisfy domestic demand for cement through 1990.

-- The first unit of the 900 megawatt Shoubra power plant was inaugurated February 12. Two additional units will be completed at six month intervals in 1985 and 1986.

-- In agriculture, where dramatic results are difficult to obtain, A.I.D. and the Egyptian Government have developed better varieties, improved irrigation systems and established effective credit mechanisms for Egyptian farmers. A new five-year National Agricultural

Production campaign, A.I.D. will assist Egypt move tested technologies off the shelf and onto the farmers' fields. This program, combined with price policy changes undertaken by the Egyptians, will help to improve agricultural productivity.

A.I.D.'s conviction that our assistance is producing results is reinforced by the increasing Egyptian recognition of the value of the project portfolio. Egyptian ministers at all levels express high praise for our assistance in renovating the antiquated Cairo sewerage system and in bringing development "to the people" through the basic education and decentralization programs. Together we have learned how to target our foreign aid more effectively.

The Egyptian Economy.

Foreign Assistance is most effective when host government economic policies are structured in such a way to make the best and most productive use of resources. The policy momentum now under way in Egypt must be accelerated and broadened if the economy is to overcome the critical problems now confronting it.

The current account deficit for 1983/84 should be about the same as in 1982/83. Services receipts helped to offset a $475 million rise in the merchandise trade deficit. A major contributor was increased remittances from workers abroad as public sector banks were allowed to pay attractive near market exchange rates for remittances.

However, most recently, there are signs that the trade deficit will again increase because of a slowing of petroleum related exports, combined with increases in imports of consumption goods. Downward pressure on the pound has led the government to introduce a new official exchange rate in an attempt to encourage more foreign exchange to move through official channels. This amounted to a de facto partial devaluation. It remains to be seen whether this is the needed first step away from Egypt's complex exchange rate system and toward a more unified and flexible rate.

Despite the large current account deficit, the overall balance of payments in 1984 showed a modest surplus of about $200 million, compared to a surplus of $890 million the previous year. With the slowing of oil sales and oil-related earnings and an expected further increase in imports, the prospect is that Egypt's overall external balance will move into deficit this year.

Egypt's debt service ratio is probably close to 30 percent. This is a heavy but manageable burden. We estimate that Egypt's debt service will remain at about $3.8 billion in the current fiscal year.

Without further policy changes, Egypt's foreign exchange earnings are unlikely to grow rapidly enough to cover both rising imports and debt service. In fact, rapidly rising domestic consumption of low priced energy is likely to cut into oil exports. It is therefore urgent that steps be taken to encourage exports and to restrain consumer demand. Failure to act promptly could lead to increasingly serious balance of payments pressures.

The Egyptian government is aware of the extent and significance of its balance of payments and fiscal problems. It has begun making economic reforms to correct the causes of its problems. We believe the best way for A.I.D. to support these efforts is through a continuation of policy dialogue and with projects focused on critical needs in the Egyptian economy.

Our policy dialogue has been successful in creating a common appreciation for the major changes required in the Egyptian economy. While we may differ with the Egyptians on the pace of change, there is an expanding consensus in Egypt on the need to unify the exchange rate, to reduce subsidies, to increase charges for energy and water, and to improve producer prices for agricultural and manufactured goods.

The Egyptian government has launched a major public education campaign about the problems facing the Egyptian economy and has begun to introduce important economic reform measures at both the sectoral and the national levels. It is important to note that Egyptian policy makers who are taking these steps are under increasing public scrutiny. They recognize that reforms are necessary and in Egypt's own national interest. A.I.D.'s policy is to reinforce these positive trends. However, the Egyptians recognize that only through their own efforts can the basis be laid for a stable and productive economy.

JORDAN

In fiscal year 1986 we are requesting $20 million under the Economic Support Fund for Jordan, of which $17 million will be grants and $3 million will be a loan with maturity of 20 years, a five-year grace period, and five percent interest.

These resources will be used to support priority development programs in a country which is a moderate voice in the Arab world and seeks to play a positive role in responding to President Reagan's September 1, 1982 peace initiative.

While Jordan's level of per capita income places it in the ranks of the middle-income countries, its need for external resources is significant. Jordan continues to be highly dependent upon foreign assistance to finance its ambitious development plans, and, with the declining price of oil, some Arab donors have slowed or reduced their assistance to Jordan. Remittances from Jordanian workers abroad have also leveled off. In 1984, GNP growth slowed to 4%, well below recent growth rates, as retrenchment policies were adopted to adjust to reduced external grant receipts. With meager natural resources, Jordan's successes are due to government policies which encourage a dynamic private sector, and to a skilled and hard working labor force.

The fiscal year 1986 program will provide continued A.I.D. support for Jordan's institution building and technology transfer needs, particularly in the areas of agricultural development and water. A project concentrating on the country's extensive highland rainfed regions will increase agricultural production and stimulate more geographically balanced growth. In water we plan to assist in the Government's continued efforts systematically to locate, assess, and monitor groundwater resources throughout the country. Other plans include: a development administration training program that will provide promising key Jordanians with education in U.S. management techniques and other development-related fields; continued support to the Center for Industrial Development; and initiation of the fifth Technical Service and Feasibility Studies project through which priority development projects will be identified, developed, and evaluated.

LEBANON

For fiscal year 1986 we request $10 million in grant funds under the Economic Support Fund, a substantial reduction from the FY 1983-84 supplemental request of $150 million and the $20 million requested for FY 1985. Although most project activity remains suspended, evidence of our continued willingness to provide assistance remains important to demonstrate support for Lebanon during this most difficult period of political and economic turmoil.

We now maintain one American A.I.D. official in Beirut to manage the limited ongoing relief and reconstruction planning program. If the security situation improves, we hope to implement this year the $73.3 million unobligated balance of the $150 million supplemental program. The program we propose for FY 1986 focusses on health, housing, and reconstruction planning assistance. To the extent security conditions permit, we will continue to support: first, a program to improve the delivery of health services in the Greater Beirut area, where many people have been injured in the fighting and many families are displaced; second, the continuation of housing reconstruction and rehabilitation and other small-grade infrastructure activities; and lastly, technical assistance to improve the Lebanese Government's capacity to plan and implement reconstruction activities.

MOROCCO

For fiscal year 1986 we are requesting $19 million in Development Assistance funds and $22.5 million under the Economic Support Fund for Morocco. The Development Assistance and $10 million of the ESF are requested as grant, and the $12.5 million ESF balance is planned to be used as a loan with 10 years grace at 2% interest and a 30-year payback period at 3%

interest. In addition, under a separate appropriation, we are requesting $40 million for PL 480 Title I and $4.9 million for the Title II program. This level of requested economic assistance reflects the fact that Morocco, as a long-standing friend of the U.S., continues to face a deteriorating economic situation marked by large budget and trade deficits, rapidly increasing service costs on external debt, and other difficult domestic economic problems.

Since the late 1970s Morocco has been struggling to overcome declining demand for its principal export, phosphates, and growing competition and protectionism that have limited agricultural exports. These negative export trends have coincided with dramatic increases in Morocco's import bills for energy and food. The global recession of the past three years, drought induced stagnation in domestic agricultural production, together with a continued high rate of population growth, have also contributed to Morocco's problems.

In July, 1983, the Moroccan Government adopted a broad program of austerity measures and reduced or eliminated subsidies thereby raising prices on consumer goods, water, electricity and petroleum products. The Government of Morocco also reduced its 1983 operating and investment budgets to curtail persistent deficits. In September, 1983, Morocco entered into a new 18-month stand-by arrangement with the IMF for $315 million. Important elements of the program include a sharp reduction in Government hiring, trade liberalization measures, and continuation of a flexible exchange rate policy which included a devaluation of 10 percent in August 1983.

Morocco rescheduled its official debt repayments in 1984 and will have to reschedule again in 1985. Even with successful debt reschedulings, Morocco will still require over $1 billion in financing during calendar year 1985 to meet its obligations. Active U.S. participation in a multi-donor assistance effort and the provision of additional support through ESF and PL 480 Title I, together with CCC credits, is critical to Morocco's recovery. Morocco's overall balance of payments problems, its requirement for a high level of wheat imports, the stagnant agricultural sector, and extensive unemployment and underemployment have led A.I.D. to a strategy which concentrates on four priorities -- increasing food production on rainfed lands, reducing the rate of population growth, reducing energy costs, and promoting exports through the private sector. A.I.D. also provides modest levels of support for a participant training program at U.S. universities, and in-country for central, regional, and local government personnel. A.I.D.'s agricultural strategy combines Development Assistance funding, PL 480 Title I local currency sales proceeds, and Economic Support Funds in an integrated program to promote investment in agricultural production. The principal component of A.I.D.'s population strategy is to help the government to deliver, on a broad scale, basic health services combined with family planning education and commodities. In the energy sector, A.I.D. will continue to assist the Government of Morocco to improve its energy planning and policies, and to identify and exploit domestic sources of conventional and renewable energy. A new program is being designed for FY 1986 ESF funding which will provide incentives to private sector investments and exports, both of which will improve the balance of payments.

OMAN

In fiscal year 1986 we are requesting $20 million under the Economic Support Fund for Oman, of which $5 million will be in grants and $15 million in loans. The loan funds are repayable in twenty years with a five-year grace period and five percent interest.

In 1980, the United States agreed to establish a Joint Commission with Oman, through which modest levels of economic assistance would be channeled to respond to the Omani desire to broaden our bilateral relationship beyond mutual security concerns in the area.

Oman's high per capita income is based almost entirely on its oil wealth and obscures the fact that the overall level of economic development is low. The modernization process is only 15 years old and the country has spent large sums of money on creating the basic physical infrastructure upon which to launch effective development programs. Oman will require technical assistance for many years to implement development programs which will meet the needs of its people.

The fiscal year 1986 grant funds will support the work of the Joint Commission in performing feasibility studies and technical assistance, and will provide more funding for the participant training project, which began in fiscal year 1983. The $15 million loan will help finance the expansion and improvement of Muscat's water supply system.

TUNISIA

For Tunisia, we are requesting $22.5 million in ESF grants to promote technical training in the private sector and for projects in agriculture, rural development and population. Under a separate appropriation, $2.5 million in PL 480 is requested to help meet grain import needs and to support policy reforms in agriculture. These increases over prior year requests reflect our concern for recent economic deterioration and civil disturbances.

Tunisia is a moderate, pro-western Arab state with a demonstrated willingness to work with the United States toward the goal of peace in the Middle East. The country's economy expanded an average of 6.3 percent per year from 1971 to 1981, prompting A.I.D. to recommend a phaseout of concessional assistance, but then dropped sharply to a rate barely equal to the rate of population growth, during 1983 to 1984. The drop was caused largely by factors beyond the government's control: poor weather cut agricultural output; worldwide recession caused reductions in earnings from tourism worker remittances, petroleum, phosphate, and other exports. It is in our interest to demonstrate support for Tunisia during this difficult period in the country's history.

A.I.D. scholarships will increase Tunisian access to U.S. technology, with important implications for future trade and investment. We will help the private sector produce and market oral rehydration salts as a key health intervention and, in rural development, we will provide additional funding to a potable water component of the Central Tunisia Project. In agriculture, additional support to the Small Farmers Supervised Credit Project will build upon the success of our current project in further improving the efficiency of small and medium sized farms and technology transfer in agriculture. Population and family planning support will further encourage inclusion of demographic concerns in long range development planning, stimulate broader involvement by the private sector in contraceptive marketing, and improve integration of family planning activities within the Ministries of Health and Social Affairs.

YEMEN ARAB REPUBLIC

We are requesting $29 million in Development Assistance grants for Yemen in fiscal year 1986 and, under a separate appropriation, $5 million in PL 480 Title I to finance rice imports.

Despite several years of rapid domestic economic growth, Yemen still ranks as one of the world's poorest countries, particularly in terms of quality of life indicators. Beginning in the latter half of the 1970s, real gross domestic product expanded between 5 and 9 percent per annum, fueled primarily by the growth of remittances from Yemenis working abroad and by foreign assistance, principally from Arab donors. The world-wide recession, declining demand for Arab oil, and the Iran-Iraq war subsequently caused sharp declines in worker remittances and Arab donor assistance.

The balance of payments position has been improving, however, in recent years. Remittances have grown from a low of $1.0 billion in 1981 to $1.2 billion in 1983 and 1984. The Yemeni rial has been devalued 40 percent with respect to the U.S. dollar since November 1983, and this has been instrumental in bringing about a decline in imports.

In July 1984, oil was discovered in the Marib area, in presently unknown but commercially promising quantities. While petroleum exports are at least two to five years away, the prospect of oil sales could alter Yemen's investment climate. However, with official foreign exchange reserves at close to an irreducible minimum, a balance-of payments constraint will continue at least in the short term.

Aside from some agricultural potential and now the possibility of oil exports, Yemen's natural resources are meager. Yet there is a reasonable prospect that by building up the physical and human infrastructure, creating and strengthening institutions, mobilizing human resources and further encouraging a dynamic private sector, it will be possible to achieve substantial improvements in the quality of life for Yemeni citizens.

In this context, the A.I.D. strategy places particular emphasis on institutional and human resource development through technical assistance, while other donors, particularly the Arabs, emphasize capital construction projects. Our strategy addresses a wide range of agricultural problems through a long term, U.S. University, Title XII program with the Ministry of Agriculture; a similar collaborative assistance project in education which will improve primary education and teacher preparation; and a broad-based participant training project to introduce needed technical and managerial skills into governmental and private institutions. Sales proceeds from the FY 1984 and FY 1985 PL 480 Title I programs are being applied to housing repair and reconstruction in areas of the Dhamar province damaged by the December 1982 earthquake. The Yemen program also includes projects addressing health service delivery in the Tihama (the poorest area of the country), village-based development activities -- particularly rural water supply projects -- and an effort to promote family planning in a family health services context.

EUROPE

For fiscal year 1986 we are requesting $245 million under the Economic Support Fund to address critical economic and security needs in Turkey and Portugal, to continue a scholarship program in Cyprus, and to support State and USIA activities in Spain.

TURKEY

We are requesting $150 million to continue support of Turkey's economic stabilization program. We plan to provide an $80 million grant and a $70 million loan, repayable in 20 years with a five year grace period on repayment of principal and five percent interest throughout. We expect other OECD donors and Arab nations to provide financial support as well, but not necessarily all on concessional terms. The Turkish government is showing continued political courage in implementing its comprehensive and well-conceived economic reform program. It still needs and deserves the support of its allies and friends. We will continue to do what we can to encourage this support.

The Turkish government put into place an economic reform program in January 1980. The program's major features include: the maintenance of a realistic foreign exchange rate; elimination of government subsidies to cover operating losses of most State Economic Enterprises; fiscal, monetary and wage restraint; maintenance of positive real interest rates to encourage savings; and liberalization of the foreign investment, trade, and payments regime.

The stabilization program produced dramatic results in 1981 and 1982 but slipped somewhat in 1983, resulting in increased inflation, stagnating exports and a decline in GNP growth from 4% to 3% in 1983. With the election of the stablization minded Turgut Ozal government in November, 1983, reform measures were renewed. In 1984, export growth recovered substantially and GNP expanded an estimated 5.7% As a result of rising export earnings the current account deficit declined from $2.2 billion in 1983 to an estimated $1.7 billion in 1984. It has taken longer to contain the inflation rate. Inflation rose from 31%

in 1983 to 50% on an annual basis during the first half of 1984. However, reforms aimed at increasing domestic savings rates and tougher monetary controls brought inflation down to 35% during the second half of the year.

Turkish dependence on concessional assistance is not as great now as it was in recent years. Our fiscal year 1986 budget request reflects this fact, but it would be a mistake to reduce economic assistance precipitously. Interest and principal obligations on Turkey's outstanding foreign debt are rising as the relief provided by past debt reschedulings diminishes. Balance of payments deficits on current account are likely to continue. Continued U.S. economic assistance demonstrates U.S. support for Turkey's very substantial economic reforms and helps to bolster the confidence of the international financial community in Turkey.

PORTUGAL

We are requesting $80 million of grant funds in fiscal year 1986 under the Economic Support Fund for Portugal. The United States and Portugal have signed a security cooperation agreement and we anticipate providing $80 million in cash transfers in FY 1986. The Government of Portugal will use half of the funds to advance the economic and social development of the Azores and the remainder for general balance of payments support. A.I.D. is also providing housing guarantees to address the critical housing shortage.

As we informed the Committee last year, the earlier technical assistance and earthquake reconstruction efforts are largely completed, and the USAID staff has been phased down to only one U.S. officer. Since 1975, A.I.D. has helped in the resettlement of refugees from Africa, provided loans for social infrastructure (particularly housing, schools, sanitation projects and rural health centers), and made a $300 million loan to Portugal for economic stabilization as part of a highly successful multilateral program. A.I.D. also helped with reconstruction following the 1980 earthquake in the Azores.

The Luso-American Development Foundation is being set up in 1985 to facilitate continued technical cooperation between the United States and Portugal after ongoing A.I.D.-financed technical assistance is phased out in FY 1986.

CYPRUS

A.I.D. requests $3 million of ESF grant funds for Cyprus in FY 1986 to continue the scholarship program initiated in 1981. This amount will bring total scholarship funding to $34.5 million, an amount adequate to finance scholarships beyond the next decade. A.I.D. is exploring opportunities to support intercommunal development and expects to obligate funds for such activities in FY 1985.

SPAIN

Twelve million dollars of grant ESF are requested for Department of State and USIA programs in Spain. Justification for this request is contained in the Security Assistance Congressional Presentation Document, since the program is managed by State and USIA.

REGIONAL ACTIVITIES

In addition to these country programs, we are requesting $4.2 million in Development Assistance grant funds and $22 million in grants under the Economic Support Fund for projects which impact primarily on the Middle East. The Development Assistance funds will finance project design and evaluation work ($800,000) for Near East development assistance programs, and eight projects ($3.4 million). These include: regional population activities; a Science and Technology Information Transfer project; a project to stimulate private enterprise development; a legal education for human rights project; a program to support small Peace Corps activities; a regional environmental protection project; a dryland agricultural research network; and a regional energy project.

The balance of our request under the Economic Support Fund will support development efforts in the West Bank and Gaza ($10 million), which are implemented in large part by American voluntary agencies and address needs in such areas as vocational and higher education, community development, health, land reclamation, improved water storage, and agriculture. In addition, $5.8 million is requested to finance cooperative scientific, technical and other activities of mutual interest to Israel and its Arab neighbors, and $5 million is requested for budgetary support for the American University in Beirut. Finally, ESF funds amounting to $1,200,000 will also support the above-mentioned regional population, legal education, and project development and support activities. Under a separate appropriation, $2 million in PL 480 Title II is requested for programs in the West Bank and the Gaza Strip.

Thank you, Mr. Chairman. I would be pleased to answer any questions that you and members of the Committee may have.

NEAR EAST AND EUROPE
PROGRAM SUMMARY
(in million of dollars)

		FY 1984 Actual	FY 1985 Estimated	FY 1986 Request
NEAR EAST				
Egypt	ESF	853.0 1/	815.0 3/	815.0
Israel	ESF	910.0	1,200.0	--- 7/
Jordan	ESF	20.0	20.0	20.0
Lebanon	ESF	27.8 2/	78.2 4/	10.0
Morocco	ESF	7.0	15.0	22.5
	DA	19.4 12/	19.2 5/	19.0 8/
Oman	ESF	15.0	20.0	20.0
Tunisia	ESF	1.5	20.0	22.5
	DA	.04	.04	0 8/
Yemen	DA	27.4 13/	29.0	29.0 8/
Sub-total ME	Total	1,881.1	2,216.5	958.0 11/
	ESF	1,834.3	2,168.2	910.0 11/
	DA	46.8	48.2	48.0
EUROPE				
Cyprus	ESF	15.0	15.0	3.0
Italy	ESF	0.0 14/	0	0
Poland	ESF	0	4.0	0
	DA	0	5.0 6/	(5.0) 6/
Portugal	ESF	40.0	80.0	80.0
Spain 9/	ESF	12.0	12.0	12.0
Turkey	ESF	138.5	175.0	150.0
Sub-total Europe	Total	215.5	291.0	245.0
	ESF	215.5	286.0	245.0
	DA	0	5.0	(5.0)
REGIONAL				
DA Reg. Activities		5.0	5.2	4.2
ESF Reg. Activities		14.0	15.0	22.0
(West Bank/Gaza)		(8.5)	(9.0)	(10.0)
(Regional Coop)		(3.6)	(5.0)	(5.8)
(AUB)		(0)	(0)	(5.0)
(Others, incl PD&S)		(1.9)	(1.0)	(1.2)
TOTAL-NEAR EAST 10/	Total	2,115.5	2,527.8	1,229.1 11/
	ESF	2,063.7	2,469.2	1,177.0 11/
	DA	51.8	58.6	52.2

1/ Figure includes $102,949 mil. in reobligations. 2/ $27.2 mil. from FY 1983 -year funds carried over. Figure includes $557,000 in reobligations. 3/ Figure excludes planned reobligations. 4/ $73.2 mil. from FY 1983 no-year funds; 5.0 mil. from FY 1985 Appropriation. 5/ Figure excludes $150,000 in planned reobligation. 6/ The FY 1985 continuing resolution earmarked $10 mil. for Poland, of which not more than $5 mil. can be obligated in FY 1985; the remaining $5 mil. will be obligated in FY 1986. 7/ To be determined. 8/ Does not include Peace Corps small projects to be transferred from NE Regional DA funds during the FY. 9/ No country narrative. 10/ Does not include disaster lief: FY 1984, Lebanon, $285,000; FY 1985, Lebanon $1,107,000; Italy ,655,781. 11/ Does not include Israel. 12/ Figure includes $460,000 in reobligations. 13/ Figure includes $1,399,000 in reobligations. 14/ From 1984 Syria deobligation.

CONGRESSIONAL SUPPORT OF AID PROGRAMS

Senator KASTEN. We are pleased to have with us this morning Mr. Peter McPherson, representing the Agency for International Development.

Mr. MCPHERSON. Thank you, Mr. Chairman.

Let me be fairly brief because, as you have indicated, I have submitted a full statement. Let me say, to begin with, that we have been very pleased to have worked as closely with the committee as we have. The committee has been, we think, a very constructive force in getting things worked through. For example, I think your initiative, Mr. Chairman, on the proposed $50 million of development assistance being used for primary health care has worked out as a substitute for other measures, and has worked out to be a very good initiative. Also, a number of other management steps which you have encouraged have been most productive. We thank you for your support and interest.

There are a couple of initiatives that I would like to mention that are set forth as initiatives per se in the congressional presentation. We think that scholarships are a very important part of what we are doing. As you remember, part of the Central American Initiative was a fairly major scholarship effort. Indeed, by October, we will have 1,200 people here in the United States in connection with that scholarship program.

When you look at Soviet education versus our education, the kind of scholarships we are giving, the numbers are not quite what they should be, so we are putting a major emphasis on this, as well.

In addition, while not mentioned specifically as a separate initiative but in fact a concern which evolved as such, we think that there needs to be virtually a green revolution in Africa as well. We need to develop high yielding varieties of grain and other crops to achieve that, and we are putting more and more effort in that.

Last, we think that it is going to be very possible in this next decade to have very major breakthroughs in several health areas, and that while it is very important to continue with the distribution of health technology already created, we need to continue to spend funds on research into new technology such as the malaria vaccine. We also have hopes, for example, for a leprosy vaccine in the next few years.

With those additional comments, Mr. Chairman, let me turn to my colleagues.

NEAR EAST REGION

Mr. Langmaid, the Deputy Assistant Administrator for the Near-East Bureau.

Mr. LANGMAID. Mr. Chairman, I will be very brief.

The President's request for the Near East area and Europe is $1.229 billion, consisting of $1.18 billion in Economic Support Funds [ESF], and $52.2 million in development assistance funds. Under a separate appropriation, $276.5 million in Public Law 480, title I and title II is also planned for countries in this area. This request, I think you know, Mr. Chairman, does not include funds for Israel, which will be submitted separately.

The request is in large part a continuation of 1984 and 1985 levels. These are only a few exceptions.

LATIN AMERICA REGION

Mr. McPHERSON. Mr. Marshall Brown, Latin America Bureau.

Mr. BROWN. My basic message is a simple one. I think we have a solid program to deal with the economic crisis in Latin America and the Caribbean. I think we have already seen signs that it is beginning to work.

ELEMENTS OF STRATEGY

The strategy emphasizes four elements: economic stabilization, in the short term; economic recovery and transformation over the medium term to generate self-sustaining growth; targeting on the most impoverished groups through development assistance; and strengthening democratic institution and respect for human rights.

We think these four elements form a coherent plan and reinforces the attack on the fundamental problems of the region. While much remains to be done, we have seen some real progress in each area. I think it is fair to say that economic stabilization is taking place. Costa Rica is a prime example. They have their policies right, and the market mechanisms work. They have their inflation down. They have devalued. Exports are up. We are seeing a real turnaround in the economic situation in Costa Rica, and we are hoping that other countries will follow its lead.

The kind of policies that we are looking for are divestiture of State enterprise, steps to stimulate exports, and greater reliance on market mechanisms.

Senator KASTEN. We look forward to working with you in those directions.

ASIA REGION

Mr. McPHERSON. Mr. Charles Greenleaf, Asia.

Mr. GREENLEAF. Mr. Chairman, members of the committee, AID assistance proposed for Asia in 1986 includes 10 bilateral, as well as 2 regional programs in countries with a combined population of over 1 billion people, and with a per capita income of $342.

South Asia and East Asia contain between 75 and 80 percent of the world's poor by the World Bank's standards. Our total assistance request for Asia in 1986 is $1.082 billion. Included in that total is $391 million for development assistance; $351 million for Economic Support Fund programs in Pakistan, the Philippines, Thailand, and for a small new program in Fiji; and $340 million for Public Law 480.

I will be pleased to answer your questions.

AFRICA REGION

Mr. McPHERSON. Mr. Mark Edelman, Africa Bureau.

Mr. EDELMAN. Rather than summarizing my statement, I would like to make an opening comment on why I believe our programs in Africa have not been as successful as I would have liked, or as we all would have liked.

First of all, sir, I don't think that we have paid sufficient attention to management problems of managing projects in Africa, and by "we" I mean all of the donors, not just the United States, and the host countries involved, as well.

I think that there are too many projects in Africa. In Kenya alone, there are over 600 different projects with 30 different donors, each of those have their own regulations, each of those have their own conditions, and each of those have their own management problems. I don't believe that the Government of Kenya, which is one of the better governments in Africa, can handle and set priorities on over 600 different projects. I think that we need to pay more attention to that problem. Many of those projects have recurrent cost problems that put a burden on the African countries once our funding stops.

The budget before you is a reflection of that concern. The budget for Africa for fiscal year 1986 contains only 28 new starts, 28 new projects for Africa. That compares with 62 projects for fiscal year 1984. We have more than cut in half the number of new starts. I think we have to put more emphasis on quality than quantity, and by cutting back on the number of new project starts, we intend to have our staff pay more attention to implementation problems involved in difficult situations in Africa.

The second point that I would make is that development in Africa has only been going on for about 10 years. In 1974, we were in 12 African countries, and today we have bilateral programs in 38 countries, and some sort of project in virtually every independent country in Africa. Compared to Latin America and Asia, this is a very short time indeed. In Asia, we have been doing development work since at least the early 1950's. In Latin America, we started development work when Nelson Rockefeller was head of what was then the aid program for Latin America under President Roosevelt. Compare those times to only 10 years in Africa, with all of its problems. It helps to explain that we have still much to learn about its complexities, its soils, its climate, its people. And those also make it a difficult learning experience for us. It takes, for example, 15 to 20 years to develop a hybrid seed, from the time we start research on it until it is widely used throughout any given area.

I think that these explain some of the reasons why we have not been as successful yet as we would all like. It is a matter of trial and error. We have made a lot of mistakes in the past. I will not tell you that we won't make any mistakes in the future. But we will try to learn from these mistakes, understand why we have made them, at least. With the help and support of this committee, and others in Congress, I hope we can learn from what we have done wrong in the past to help solve the terrific problems that Africa faces.

Senator KASTEN. We thank you for all of your statements.

I have been joined by Senator DeConcini and Senator Leahy. I want to ask just a brief question.

FUNDING FOR ECONOMIC POLICY REFORM

Peter, I appreciate the fact that we no longer have a separate fund for economic policy reform in Africa. Instead, you are essentially requesting that as part of the overall Economic Support Fund. My question remains the same: Why do we need a special fund or a special part of a fund to leverage reform? Why are not all of the efforts that all of you are making aimed at reform, whether it is cheap food policy, whether it is privatizing the agricultural sector, whether it is ownership of land, whether it is for a profit system, whatever the goals of this administration are. Why do we need to have a separate fund? Why don't we instead use all of our foreign aid dollars to leverage reform? Why do we need to talk about setting aside a small amount for such purposes, when all of the dollars ought to be used for the goals that you and I share?

Mr. McPHERSON. Fundamentally, I agree with your position, Senator, that all of our dollars should be used to leverage reform, and I think that a significant share of them are. In Niger, we don't have any interest at this time in a special policy reform program or use of a fund there because we have been able to use the regular program to leverage significant policy change.

In Kenya, last year, we did very much the same kind of thing, or at least we tried to do the same sort of thing. To the extent we can, we look at the policy implications for every project in the country.

The reason for a special account for this is because we come here to you months, perhaps as much as a year, prior to when we start making allocation decisions in late calendar year 1985. I make a budget request for a list of countries, but it is a year before I have the regular money, and it ends up not having as much flexibility, not providing as much leverage. So what we are talking about is using all of the funds that we have to the extent that we can. But since there are political concerns when you give money to some countries, having a little extra money to be able to use in selected places allows us to augment, for policy leverage from funds we don't have already programmed.

I have never disagreed at all with your basic concern that all of the money at AID, to the extent possible, should be used to leverage policy reform. I think that that is absolutely right. This is just an augmentation, a little bit of additional flexibility to do what I think you and I both think needs to be done.

Senator KASTEN. We don't disagree.

Mr. McPHERSON. It is just a tactical question, not a goal question.

Senator KASTEN. We don't disagree on the goals. We disagree on the idea that somehow there is a special program, a special group of dollars that are there, to use as leverage rather than use all foreign assistance dollars.

Mr. McPHERSON. You have encouraged us to be certain that all of our money is used for policy reform, and I honestly think that what you have been saying is helpful, and I really do very much believe that this is a tactical question, not a substantive question.

We have attempted, in all candidness, to accommodate your interest by taking it out of a sort of special category, a high visibility category, but still leaving us this small amount of money for some flexibility. We plan to come to you to get approval of these individual country allocations as they occur. In many ways what we are doing with this extra bit of money is simply allocating at a later time, but still checking and working with you.

DONOR INTEREST IN POLICY REFORM

Mr. EDELMAN. Mr. Chairman, if I may add one thing to this. To my surprise, another benefit that has occurred—starting over a year or a year-and-a-half ago when we first proposed this—was that it has generated a remarkable amount of interest in policy reform on the part of other donors in African countries. This wasn't true when policy reform was integrated thoroughly into the rest of our programs.

The donor community was almost electrified by the proposal a year-and-a-half ago. The World Bank's special facility has grown out of that debate. African countries seem to be paying a lot more attention during this last year since we first proposed it as some type of a special project. For some reason, setting it aside or setting it up as something special has generated much more interest around the world, both in the donors and in the African countries, than was true before when we were, as you say, using all of our other resources for policy reform. I can't quite explain why that has happened, I just know that it has.

Senator KASTEN. What we are trying to do is to shift the whole emphasis so that all of our aid is leading toward these policy reforms, rather than having this special walking around money that you and the Administrator, and others, can say, we are going to give to countries as a special bonus reward. All of our aid ought to be geared toward the goals that I think everyone at this table shares.

Mr. EDELMAN. I agree with that.

Mr. MCPHERSON. We are here to make a commitment to you that that is exactly our position as well.

POLICY REFORM EFFORTS IN AFRICA

Senator KASTEN. Much of Africa continues to be ravaged by drought, resulting in suffering and death for millions of Africans. We have had a special program of assistance. It seems that AID at the country level has been unable to establish programs to ensure the encouragement for agricultural producers to produce beyond the subsistence level.

What new actions are you taking to make certain that your Sub-Saharan Africa missions are creating effective policy reform programs? What are you doing now that is different from a year ago in order to see that we are going to be able to encourage the farmers to produce beyond just the subsistence level?

Mr. MCPHERSON. Let me begin, and Mark may have some comments, too.

First, it is clear that the foundations of change are the economic policy structures, as we have just been discussing. We need to get countries to allow their farmers to be paid more, or paid at least near market prices. Where that has happened like in Somalia, where they allow farmers to get more, production went up 40 percent last year. We found that in several different places.

Senator KASTEN. Did you say 40 percent?

Mr. MCPHERSON. Yes, 40 percent. Part of that was decent weather, but there is no question that the price increases were a key part of it.

In Zimbabwe, which we are often critical of in terms of their statements and other actions, they paid their farmers reasonable prices, and in Zimbabwe we may have as much as 1 million tons of corn to export this year.

There is no question that when you pay farmers more, we know that here too, when you pay farmers more——

Senator LEAHY. Zimbabwe did not have the drought, is that correct?

Mr. MCPHERSON. No, Zimbabwe did not have the drought.

Senator LEAHY. They have a very favorable climate, I am told.

Mr. MCPHERSON. That is true, but their production, even compared to other years, has gone up. You can make a fairly direct, not an absolutely direct, but a fairly direct correlation between paying farmers more and how much more they produce. That is true not only for the white farmers, which historically have been very price sensitive, but the most interesting aspect of this is that it has been true for the so-called "tribal land" area, or essentially black farmers.

We need that kind of pricing policy change, and we are really working hard on that throughout the continent. Second, we think that it is very important to create higher yielding varieties of seeds, and we have been putting a lot of effort into that. There is about $75 million a year in agricultural research on the continent. In Sudan, for example, we have a hybrid sorghum, just like our hybrid seed corn here. The hybrid sorghum will produce 150 percent yield increases over traditional sorghum in Sudan. If 25 percent of the land planted in traditional sorghum is planted in hybrid sorghum, it will make up for the grain gap.

This is not a full answer, because you are going to have a whole lot of different seeds, but we are working on policy change. We are working on what I have been calling something of a green revolution for Africa.

PROGRESS IN THE SAHEL

Mr. EDELMAN. I would like to add another point. I agree completely with those highlights. But let me take, for example, the Sahel. Over the last 10 years, where it is commonly said that we have not seen much progress in the Sahel. I think just the opposite, we have seen progress in the Sahel. The drought today in the Sahel is significantly worse than the drought was 10 years ago by any standard as far as crop failures and the like, but no one is dying of starvation today in the Sahel. Ten years ago, we had to airlift food into the Sahel. The Sahelian countries today are better able to handle the drought because of their own efforts and our help. Because they have built better infrastructures, because the governments are better trained and better managed, because the governments had storage facilities constructed, and because they have instituted other changes such as the farm inputs and marketing structure for farmers in Niger and Mali: The current drought is not causing as much suffering as the one 10 years ago. I think this is a result of what all the donors together have done in working with the Sahelian countries.

I am not saying that if there had not been the drought, there would be a big agricultural boom in the Sahel by any means. But the situation is not as bad as it was 10 years ago, although the drought is worse.

Senator KASTEN. Senator DeConcini.

FAMILY PLANNING RESTRICTIONS

Senator DECONCINI. Mr. Chairman, thank you.

Mr. McPherson, I have several questions, some I will submit to you, but I want to touch on the problem that we have discussed at some length—the family planning restrictions and prohibitions set forth by AID and the State Department.

As one of the pro-life Senators who supports completely the assurance that Federal and AID funds are not used in any manner to promote or fund abortions, I am deeply concerned about this matter. The present language that has been submitted to some of the agencies seems to me to be almost an effort to eliminate International Planned Parenthood from any family planning activities.

What I want to know is if the administration has that intention, and, if not, what can be done by the administration to attempt to correct that by carefully worded, carefully monitored, and audited flow of funds to agencies that will ensure that funds are not used in any manner for abortions, but are available for family planning activities, other than abortions.

Mr. MCPHERSON. I will say, Senator, as you expressed your view, that is our view and my view, given that, in fact, we don't believe in abortions, that we don't believe that we should fund them. On the other hand, we think that a strong family planning program—or as we have been saying, broadening the ability of family services, family planning services, so that couples can make their own decision—is an extremely important part of our program.

We have this policy decision that we will not fund nongovernment organizations that, with their own money and with ours, fund abortions or promote abortions. It is that rule itself which catches the International Planned Parenthood Federation. However, the application of that rule more broadly has been the subject of quite a lot of discussion within AID, and perhaps that is your reference.

Senator DECONCINI. That is.

Mr. MCPHERSON. I personally have spent hours on how we might rework those proposed contract wordings. They have been circulated among some of the people interested, and have come back with comments. I have spent a few hours just recently looking at it. I am hopeful that we can work out wording that both accomplishes the President's interest concerning abortions, but at the same time is not a significant hampering of the administration of this program. That is exactly what I am trying to do.

Senator DECONCINI. Having recently traveled to Kenya, which has a national law prohibiting abortions except to save the life of the mother, there is great concern within our own embassy of what will happen. If they continue to require some of the organizations down there to sign antiabortion statements, they may have difficulty getting a doctor to sign the prohibition that they would never mention any possibility of abortion. If that happens to turn out to be a requirement of AID's aid, to me you are in essence saying that we don't want to support family planning. It seems to me, as much as I am opposed to abortion, in a doctor-patient relationship a doctor has a responsibility to discuss that subject matter, certainly if it is raised by the patient. Not that the doctor has a responsibility to implement it, nor to be a participant in executing it.

I hope that you will look at that carefully. I hope we would not carry this to such an extreme that it would prohibit a medical professional discussing with a woman what there is available to treat her medical conditions. I don't have any sympathy with Planned Parenthood because they, in my opinion, deserve to be picked on because they continue to advocate in such liberal terms the abortion clinics. But there are other groups that do not. They do not overrule the possibility of abortion because of genuine belief in freedom of choice, which I disagree with.

I just hope that you will take the attitude because I think there are some of us, Senator Hatfield among others, who are prolife Senators who don't want to participate in abortion funding but agree with the present administration as to the prohibition of abortion funding. But we question whether or not there appears to be some other agenda here of not wanting to fund family planning. Some of your own people in Kenya are very concerned about that policy because they, for the first time, have a Vice President, who happens to be of a faith that opposes even family planning. He is heading up the commission to hold down the population in Kenya, and I don't have to tell you the severity of that problem. The government now is moving forcefully ahead, and we have a great opportunity to participate in family planning there. It would be just a shame to see us abandon that possibility.

NARCOTICS CONTROL

Another question I have is in Latin America. You are proposing aid to Peru, Ecuador, and Bolivia. I wonder if you are familiar with Senator Hawkins. and my amendment, and other amendments, to cut off aid to Bolivia because of their failures to act responsibly in doing anything about the cultivation of the coca leaf there, and if you have any comments regarding that.

FURTHER ON FAMILY PLANNING

Mr. McPHERSON. Yes, I do, Senator. Let me say, going back to the family planning point, I think your concerns and your comments are helpful. As I struggle through these various contractual clauses, I am specifically keeping in mind that we want family planning to work. We don't want to bind it up with so many restrictions that it doesn't function. Some of the issues you have touched upon, I have spent quite a lot of time on.

Senator DECONCINI. I take your word for that. It is very important that this is your position because you are the Administrator, and I am satisfied that you are smart and bright enough, and have people there that get those family planning dollars there with the assurance and satisfaction that they aren't going to be used for abortion.

Mr. McPHERSON. You strike the ground, I think, Senator, that there really is a potential for consensus on our family planning programs, antiabortion, but really profamily planning. What we have had in the last year is people on various sides of this issue, not necessarily believing that that was really the middle ground, or the ground that the administration stood on. What is incumbent upon me as I see it in administering this program is to really implement that in a fashion that permits credit to those on various sides. We are trying to do that.

Senator DECONCINI. I wish you well, and I am pleased with your response that it is not only AID that can write satisfactory language. I have seen your language, and it didn't trouble me until I found that that language, if presented to a medical doctor in Kenya, or some other country, that doctor would have a hard time signing any kind of a commitment that he could not discuss abortion, perform it or even advise on it, and that is a difficult situation for a patient and a doctor.

Mr. McPHERSON. It is an ethics question, Senator, and we get some local legal questions.

Senator DECONCINI. What many of us want to see is that American foreign assistance and AID funds do not go into promoting or facilitating abortions, but that they do go into education, distribution of different devices, good family counseling, and what-have-you.

Mr. McPHERSON. What was your other question?

HAWKINS AMENDMENT ON NARCOTICS

Senator DECONCINI. Bolivia, and the Hawkins amendment.

Mr. McPHERSON. I happen to have lived in Peru for a couple of years 20 years ago. I know the Andes very well, and I happen to be very fond of the people in those countries. We struggled through this issue enormously in the last several years. When I go to Bolivia, or Ecuador, or Peru, I inevitably talk to the leaders of those countries about the drug situation, particularly Bolivia and Peru. It is a political situation in Bolivia where the government has no control over this issue, or many other issues. Their record on drug eradication, and first steps in dealing with these problems, is almost nonexistent. They have not even passed a law which prohibits growing over and above the medical kinds of requirements for local consumption.

What we are saying, essentially, is that in the next several months we expect to have an election in Bolivia, and we hope and expect to have a democratic election where there will be a full term of the current democratically elected incumbent. Upon that election, we hope that a number of steps can be taken and drug eradication is certainly one of the two or three absolutely critical ones that we face. We would like to be able to have the necessary resources to be able to deal with that problem as it emerges.

In Peru, the government has tried a good deal more. There has been an enormous amount of violence in the places where we have been working. That, too, however, is a difficult situation for the government, confronted with the Shining Path, the terrorist group, with severe economic difficulties because of floods, and droughts, and other problems. There will be elections there in the next few months, and we would expect there too to use these resources to, among other things, achieve some progress in eradication as best we can.

I think, to be honest, the ongoing concern that people like yourself and Senator Hawkins express is helpful. I hope that it is not so helpful that we absolutely don't have flexibility, but at least helpful.

Senator DECONCINI. Come those elections, if there is not a forceful effort by the government, whatever its makeup, to do something about the drugs, would you be prepared to curtail our aid, or is it going to take Congress to do so?

Mr. MCPHERSON. I think we have to judge the overall circumstances at the time, but I think that nonaction on drugs should be a major factor on what we do.

Senator DECONCINI. You are telling me to wait and see.

Mr. MCPHERSON. A little bit. We went through cutting our aid to Bolivia once before because there was a regime that was virtually hand in glove with the whole drug operation. We cut it off then, and it didn't really help.

Senator DECONCINI. What it did do, as I recall, is that Garcia Mesa and a couple of those people left the government. Maybe they were replaced with people just as bad.

Mr. MCPHERSON. No, I don't think so.

Senator DECONCINI. There was some movement of the worst known drug leaders out of the top of the Ministry of the Interior and other places even though they were exiled to ambassadorships overseas. I don't know that that is good enough, but it seems to me like they do respond to us, and that ought to be a major rule.

Mr. MCPHERSON. I think this is something that we need to talk about, but we think that significant concerns have to be expressed. We cannot continue to supply large amounts of aid to these countries without movement against drugs. The Bolivian economy is just absolutely out of control.

PHILIPPINES

Senator DECONCINI. Mr. Chairman, the only other area that I am very concerned about is the Philippines. I don't know if you are going to touch on that yourself. I don't know if I should wait or ask that one last question.

Senator KASTEN. Why don't you go ahead and ask the question directed to the Administrator, and perhaps the person for that region might choose to make an additional comment.

Senator DECONCINI. Mr. McPherson, it seems to me that we are headed down a very dubious path in the Philippines, and I don't intend to imply that the answer is easy. But I wonder if our aid—the economic aid and essentially the military aid—can be tied to conditions of election reform. There is in the Philippines a nongovernment, supposedly a bipartisan group that monitors elections. It is not controlled by the Communists or the opposition, but it is a coalition. I just want to ask for your observations. Should we not attempt to tie our aid to the government in control there having free elections? There are some coming up this year on the local level, and having them monitored by someone other than the majority party and the Marcos Regime, would do several things. It may actually bring free elections. If nothing more, this would give a strong signal to the Marcos Government that we are not going to participate while they crush the sparks of the true democratic belief of the people there. If they reinstate the chief of staff, who has been indicted now, even if he is acquitted, are we just going to participate in that?

I would like to see us get in early on the side of the good guys with free elections, and challenge that government to comply with its commitment that it is reforming itself and government is going to get better.

Can you comment, or get back to us, or suggest what you are doing along those lines?

Mr. MCPHERSON. As to how that is achieved, I think we might want to get back to you and talk more about it, but the principle of insisting, in order for us to continue with aid at the levels that we have been providing, that there be progress in terms of democracy, in terms of economic reform, I think is critical.

For example, there is a coconut production monopoly which is in effect a monopoly that discriminates against small farmers. It has been and is a terrible drain on the economy. There are a number of other monopolies that we think are truly discriminatory against the vast majority of people. That kind of economic lack of democracy, if you will, and the concerns that you expressed are ones that we have. We think that for the United States to participate in the fashion we have, or might even expand in this period of adjustment, we need to have progress.

Mr. Greenleaf may wish to comment.

BASES AGREEMENT

Mr. GREENLEAF. Just a couple of comments, Senator. I think it is important to point out initially that our main aid to the Philippines is based on the bases agreement that we have entered into with the government, and which the President has indicated that we would make a best efforts pledge to aid both in the economic and military side that has been agreed upon in the discussions with the Filipinos. We are now just beginning the second 5-year program of aid; the first 5-year program ended last year.

There is an extenuating circumstance with regard to our Economic Support Funds that is involved with this bases agreement which gives us perhaps somewhat less flexibility than we would have with additional funds. I cite an example within our 1986 presentation where we have proposed $35 million of additional food aid for the Philippines, but proposed it only on the condition that they accomplish a series of agricultural reforms.

ELECTION REFORMS

Senator DECONCINI. What about election reforms?

Mr. GREENLEAF. Election reforms are something which the Ambassador and the other officials in the U.S. Government who periodically go to Manilla discuss with them. We have particularly tied the discussion with respect to this food aid to what we felt was more related; namely, the agricultural reforms, pricing, a number of things that Peter McPherson named a moment ago.

I can assure you that based on my following the situation that Ambassador Bosworth, and those of us who are dealing with economic aid program are in constant dialog with the Filipinos about both political, as well as economic reforms.

Senator DECONCINI. I just want to advise you, Mr. McPherson, that I am putting together an amendment that would condition our aid on substantial election reforms, as well as monitoring of the elections by an international or nonpartisan group. I will be glad to work with you. I hope to discuss it with the chairman before I offer it, but I am very concerned that we ought to get out there early in this effort.

Thank you, Mr. Chairman.

[The information follows:]

LINKING AID TO REFORMS

We support the objective of encouraging the Filipinos to move rapidly on a broad range of political and economic reforms. The entire thrust of our policy is in that direction.

The most effective way to achieve our objectives is to continue, through public statements and private diplomacy, to engage our influence behind political reform issues as they come to the fore in the Philippines. Successful past examples of this approach include the new constitutional succession formula, the revised electoral law, relatively free elections in May, and the Agrava Board. Upcoming issues of concern include free and fair elections in 1986 and 1987, continued emphasis on human rights, and the elimination of military abuses.

The Filipinos are aware that our willingness to provide additional economic assistance will be affected by progress on political reform. Moreover, the economic reforms to which economic assistance will be addressed—more open economy, elimination of crony capitalism—will have important political implications.

It is unlikely that the Philippine Government would welcome economic aid, no matter how large, that is tied to changes within the Government that it considers ill-advised. We, therefore, believe it is important to engage in candid discussions with the Government, which stress political and economic reform.

NARCOTICS AND BOLIVIA

Senator KASTEN. Senator Leahy.

Senator LEAHY. Thank you, Mr. Chairman.

The legislation that Senator DeConcini spoke about on Bolivia interests me a great deal. I may well end up being a cosponsor on that one. Both Senator DeConcini and I, in a prior incarnation, served as prosecutors, and we saw the problems of drugs at that time. I think both of us would agree that it was nothing like it is today. Sometimes our expressions, legislative or otherwise, are a matter of frustration. By cutting off aid, U.S. taxpayers know that they are not subsidizing a country that pays no heed whatsoever to the damage it does to the people of the United States.

We have countries declare war on us and inflict a quarter of the damage that some of the countries like Bolivia, Colombia, Mexico, and others have through their drug dealings.

AID TO HONDURAS

On another matter, Honduras, the poorest country in Central America, I am concerned about where some of our aid money is going. From 1979 to 1983, the per capita income in Honduras decreased by 14 percent. I have been told that the Honduran Ministry of Health reported last year that the 1983 and 1984 budgets were cut by 10 percent, and one of the results was a decrease in the availability of immunizations. In July 1984, Honduras was struck by an outbreak of polio which claimed 160 reported victims by the end of August 1984.

I turn 45 this week, and I remember as a teenager the concern about polio. My teenagers don't have to be worried about it because it is a very, very easy thing to eradicate with a relatively small amount of money. If you don't, we all know about the tragic results.

Why are we reducing assistance to Honduras for health from $11.2 million in fiscal year 1985 to $2.9 million in fiscal year 1986, when they are having these kinds of problems?

Mr. MCPHERSON. Let me turn to Mr. Brown in a minute.

CHILD MORTALITY AND ORAL REHYDRATION

An important statistic, I think, Senator, is to look at child mortality rates in Honduras over the last 4 to 5 years. I may be off by a little bit, but it seems to me that about 5 years ago, the child mortality rate was 89 per thousand deaths for children under age 1. The last time I saw those figures, my recollection was that it was down to about 73. This is a very significant drop in a period of just a few years. This was brought about in part because of this oral rehydration therapy that we have been pushing.

Senator LEAHY. I have gone out and talked to some of the people who have done that work in Honduras.

Mr. MCPHERSON. It is dynamite, it really is, and that has been a significant contributor. We think that child mortality should continue to drop, and we want to work hard to that end.

HEALTH AID TO HONDURAS

Senator LEAHY. Is that why you are dropping your health assistance from $11.2 million $2.9 million, because the child mortality rates are going down?

Mr. MCPHERSON. We don't have this job done by a long way.

Mr. BROWN. Let me try to put those numbers in perspective for you. First, some of these projects are being forward funded in fiscal year 1985, that is, we plan to put in more money in that year than is actually needed for that year. In effect this means that funds surplus to fiscal year 1985 needs will be carried over, thus lessening the need for new funds in fiscal year 1986. I think that it evens out.

Senator LEAHY. We had $8 million more there than we needed, so you dropped it $8 million?

Mr. BROWN. No; if you let me finish, I will clarify it. We added another $5 million to Honduras in the health sector in our fiscal year 1984 supplemental, and this is another $5 million which will come on stream this fiscal year.

Senator LEAHY. Let me make sure that I understand this. In fiscal year 1985, what was our total amount of aid to Honduras for health?

Mr. BROWN. For fiscal year 1985, it will be $11.2 which included $5 million from the fiscal year 1984 supplemental appropriations. We are forward funding our health programs considerably so that next year we don't need to put so much money in to sustain the program.

Senator LEAHY. In 1986, how much will we have?

Mr. BROWN. We will have $2.9 million, but we will have a pipeline of funds to continue our health program there. We will not spend $16.2 million in 1985.

Senator LEAHY. How much will we have spent in 1985?

Mr. BROWN. I will have to get that for you. I can estimate that we might spend a third of that.

Senator LEAHY. Will we spend more or less in 1986?

Mr. BROWN. Probably the same amount roughly.

[The information follows:]

AID ASSISTANCE TO HONDURAS HEALTH SECTOR

AID supports two major health projects in Honduras: one for the extension of basic health services including immunizations (Health Sector I); and one for the provision of potable water and sanitation services in rural areas (Rural Water and Sanitation). The planned obligation levels continued in the fiscal year 1986 Congressional Presentation ($11.2 million in fiscal year 1985 and $2.9 million in fiscal year 1986) include both projects, as well as relatively small funding for Program Development and Support and operational program grants to private voluntary organizations. The lower obligation figure in fiscal year 1986 does not, however, mean that our assistance will be significantly reduced in 1986. There will be a total of about $17 million of unexpended AID health account funds in the pipeline at the end of fiscal year 1985 which will be available for expenditures in fiscal year 1986. We estimate that actual expenditures for health assistance will be approximately $10.4 million in fiscal year 1985 and $9.6 million for fiscal year 1986. These expenditure figures give a better picture of AID health assistance levels, and show that fiscal year 1985 and fiscal year 1986 levels are roughly equal.

REDUCTION IN ASSISTANCE TO HONDURAS

Senator LEAHY. Are you reducing your assistance to Honduras for education and human resources development from 1985 to 1986?

Mr. BROWN. It has gone down marginally from $10 million to $8.6 million.

Senator LEAHY. What is the per capita income in Honduras?

Mr. MCPHERSON. Under $1,000.

Senator LEAHY. They might not think that from $10.1 million down to $8.6 million is marginal.

Mr. BROWN. Again, Senator, these moneys are not always spent in the years they are obligated, so you have a flow of funds carrying over and it tends to even out. Certainly, in Honduras, we are putting major emphasis on basic needs programs, education, health, family planning, and agriculture are our primary emphases down there.

EDUCATION AID TO HONDURAS

Senator LEAHY. How many schools did we build this year in Honduras?

Mr. BROWN. Several hundred. These are our major areas of emphasis in Honduras.

Senator LEAHY. Where are the teachers coming from for those schools? Are they there?

Mr. BROWN. They are coming out of our training programs, yes.

Senator LEAHY. Wherever schools are placed, we will have adequate teachers for them?

Mr. BROWN. Yes, including a center for teaching in rural areas where the amenities are less attractive than they are in the capital.

ECONOMIC SUPPORT TO HONDURAS

Senator LEAHY. In your congressional presentation, you state, "The principal element of AID's economic stabilization effort in Honduras is ESF assistance." It appears to me as though that assistance has dropped from $147.5 million in fiscal year 1985 to $80 million in fiscal year 1986. Has it really dropped?

Mr. BROWN. The 1985 figure includes $75 million from the fiscal year 1985 continuing resolution, and $72.5 million from the fiscal year 1984 supplemental appropriation.

Senator LEAHY. If 1985 is $147.5 million with a supplemental, and 1986 is down to $80 million, does it mean that you are going to ask for a supplemental?

Mr. BROWN. There is no plan for that at this moment.

Mr. MCPHERSON. The $72.5 million supplemental that we had for 1984 carried over in 1985, and it really makes these figures a little bit hard to compare.

Senator LEAHY. Then let me ask it this way. Are we dropping our aid in Honduras?

Senator KASTEN. If the Senator would yield.

Is the aid being withheld to Honduras? Is $10 million of the aid being withheld pending negotiations with the IMF or any other multilateral institution?

Mr. McPherson. Specifically not.

Senator Kasten. If it is not being withheld today, has it been withheld over the past couple of months?

Mr. McPherson. There are several kinds of assistance involved. We are not withholding food. We are not withholding any kind of development assistance.

Senator Kasten. That is what you are not withholding. Now what are you withholding?

Mr. McPherson. We are withholding the so-called ESF, and we are saying that you, Honduras, need to make certain kinds of economic changes in order for that money to be well used, principal among them is the exchange rate devaluation that we think is necessary in Honduras. None of it is the kind of money that Senator Leahy is talking about.

Senator Kasten. Money is fungible.

Senator Leahy. It really is, I agree with the chairman on this. They don't have money for basic immunizations, the kind of thing that we take for granted. Polio immunizations in this country are routine. We are at a point here where somebody could make out a case of child neglect on either the parent or the guardian of a child, if they didn't have polio immunization.

Why did they have to cut back on immunizations? Why did they have to decrease the availability? I realize that it is not just the medicine, but getting people out there to do the immunizations. Why did they have to decrease that?

Mr. McPherson. I don't know. Perhaps Mr. Brown can address this question.

Senator Leahy. We are talking about a very small amount of money.

Mr. Brown. The whole economy has contracted over the last 4 years. You had a decrease in revenues, and the budget itself contracted. It is an unfortunate result of the overall economic circumstances.

Senator Leahy. We are about to spend, and have spent, hundreds of millions of dollars in Honduras in putting on Big Pine, the military exercises. We spend tens of millions of dollars to build air bases which we abandon a few months later because of a change in policy. Is this better for the Hondurans than the immunization program?

I don't know. It obviously has to be a policy decision. I have seen the requests that have come to the Appropriations Committee, and the requests that have been made in the classified area. We have had literally an unlimited amount of money available for anything we want to do militarily in Honduras. There has not been a limitation of even 62 cents on anything for the military. Everything they have wanted has been there. Tens of millions of dollars have been spent, and then a few months later someone will say: I guess we don't want to do that after all—it is only money.

Is it the policy that this is more important for the Hondurans? These are the questions that I get asked back home. I have to vote on these things, and I would like to tell the people of Vermont.

Mr. McPherson. We don't have any responsibility for the military portion of the program. In fact, I suspect that you know a good deal more about it than I do. What we do have is an overall economic growth program, and a fairly significant effort to improve the human situation such as the schools that we are building, and the ORT, and that kind of thing. We do feel that some of these economic reforms that we have talked about, particularly the devaluation, are very important.

It is interesting to look at the region. Costa Rica, a few years ago, began to seriously go about devaluation. As a result of economic restructuring, Costa Rica, in calendar year 1984, had a 27-percent increase in nontraditional exports outside the region, a 27-percent increase.

There is no question in our mind that part of that comes from the devaluation, and other economic steps. They were able to take advantage of the CBI. What increased exports mean are increased jobs.

Senator Leahy. They have not ended up having to support a large military in Costa Rica.

Mr. McPherson. They don't have the military expenditures that their neighbors do.

Senator Leahy. You understand, Mr. McPherson, I agree very much with what you said about Honduras having to change their rate of exchange. It is obvious that they want to keep it at false valuations. They want to be able to buy consumer goods from outside of Honduras, and unfortunately, that will delay the day of reckoning. I agree with you in wanting to change that.

What I am concerned about is that we are giving them kind of a false signal. We are spending money on a per-capita basis, and it is hard to find any other countries in the world where that kind of money is being spent. I wonder if you don't have people down there who are saying: It is a bottomless pit as far as money is concerned in the United States. I am not sure that sending in the paratroopers and building temporary air bases or anything else does an awful lot for a farmer somewhere out there whose child gets polio because we don't pay to send a paramedic to go out and immunize the child.

Mr. McPherson. I guess a part of the response, Senator, within the scope of our authority and programs, is that we think that child mortality rates are important indicators of where society is. We are pretty proud of that drop from 89 to 73. My figures may be wrong, but I think they are right. I was in Honduras at Christmas time, and that is the figure I recall.

We would like to get back to you to tell you where we are going with child mortality rates and the program generally in Honduras.

Senator Leahy. Yes, I think that child mortality rates are very important.

Mr. McPherson. They are a broad indication of the society.

[The information follows:]

HONDURAS HEALTH SERVICES AND 1984 POLIO OUTBREAK

While it is true that the budget of the Honduran Ministry of Health has been reduced 5%-10% in the last two years, expenditures for and coverage of basic, preventive health services have not decreased. The decrease in the budget has been absorbed by urban hospitals which are now required by the Government of Honduras to generate a minimum of 5% of their operating expenses from user fees. The level of funding for basic rural health services has been maintained and, in the case of immunizations, expanded.

The coverage of immunizations in Honduras has increased as follows:

Vaccination	% Children Immunized	
	1981	1984
Polio	40%	83%
DPT (Diptheria, Pertussin, Tetanus)	44%	71%
Measles	35%	74%

Regarding the 1984 outbreak of polio, the Pan American Health Organization has notified us of the following statistics, based on an evaluation undertaken in December, 1984. In 1984, there were 76 clinically diagnosed cases of polio in Honduras; 49 cases of the 76 were confirmed as polio through laboratory analysis. Of the confirmed cases, approximately 40%, or 20 cases, had had at least 3 doses of polio vaccine. The conclusion of the evaluation team was that the receipt of three doses of polio vaccine had not provided the expected level of 90% protection from the disease. The explanation for this problem was judged to be the management of the cold chain (refrigeration for the vaccine). When the increased incidence of polio was reported in the summer of 1984, A.I.D., on an emergency basis, moved more than 50,000 doses of polio vaccine from El Salvador to allow the Government of Honduras to mount a national immunization campaign to prevent a widespread epidemic of polio. In addition, the A.I.D.-financed resident technical assistance team was instrumental in assisting the Government of Honduras to improve its cold chain based on a model system developed in one area of the country. The 1984 outbreak would have been much worse without the prompt response of the Honduras Ministry of Health assisted by the donor community, principally A.I.D. A prior polio outbreak in Honduras in the late 1970s produced more than 2,000 reported cases.

A.I.D. has a long-standing, significant commitment to the health sector in Honduras, and considers our health projects there to be among the most successful in the world. Infant mortality has decreased significantly in the last 5 years, from 88 infant deaths per 1,000 live births in 1981 to 78 in 1985. This is largely a result of expanded primary health care services, including immunization and oral rehydration to prevent death from diarrheal diseases.

EMERGENCY MEDICAL SUPPLIES

Senator LEAHY. I have run out of time, and I am going to submit questions for the record. As you know, I am concerned about health, and what we do. Another vital place is El Salvador. We talked briefly before you left for Africa about the health system vitalization project. We approved an initial $9 million, and staff showed me a figure for HSV. Second, $16 million as an emergency measure in August 1983. It doesn't seem like an awful lot of the emergency drugs and medical supplies have been delivered in El Salvador. Is that the case?

Mr. MCPHERSON. There are two components to that program. One which worked fairly well, and that was less than a million dollars of emergency drugs and supplies. This was done directly and GSA was the purchasing agent. The other component was for what you might call middle-term drug and supply purchases, and frankly that just didn't work. It was a disaster.

We did it through what we call host government contracts, and it just didn't work. I made some organizational changes in the process of it. We are doing this now with a direct contract. We supplied Senators Kasten and Inouye with a letter laying this out, and we will supply you with that, too.

Senator LEAHY. Would you please, and also have whoever is in charge of that for you, try to keep me apprised of how that is going. I don't mean to suggest that you just want to shovel the money down there and forget about it. I don't mean that. We all want to see the medical supplies get to where they are needed. On this committee, both Republicans and Democrats have been supportive of getting medical supplies, but we want to make sure that they get there, and we want to work with you in any way that we can to do that.

Mr. BROWN. $7 million has been delivered on the medical supplies, and the $6 million is due to arrive this month and through May, leaving $3 million to arrive by June. That is roughly where we stand.

Mr. MCPHERSON. Let us give you the letter that we sent to Senators Kasten and Inouye, and then let us have our particular assistant tell us in 3 months where we are.

Senator LEAHY. I know that Senator Kasten and Senator Inouye have been keeping a close watch on it. All three of us feel exactly the same way about it.

Thank you, Mr. Chairman.

Senator KASTEN. Thank you, Senator.

HOLD ON AID TO HONDURAS

I just wanted to say that we are not talking about small amounts of dollars when we are talking about Honduras. It is my understanding that $75 million is now being withheld from Honduras pending some of these so-called reforms.

We may or may not agree with you on the reforms, and we may have a debate about that, but there is an issue in terms of aid dollars that ought to be going to Honduras. You can put the dollars in whatever categories you want, but dollars are fungible. It seems to me that this is an issue that ought to be addressed. The Senator from Vermont was correct when he said that there are urgent needs, economic, health, and other needs that ought to be addressed.

Marshall, if you want to speak to that. Am I wrong with my $75 million?

Mr. BROWN. No, that is correct, that is a part of the total $147.5 million.

Senator KASTEN. $75 million are now being withheld.

Mr. BROWN. We allocated $147 million of ESF this fiscal year from funds appropriated in the fiscal year 1984 supplemental and the fiscal year 1985 continuing resolution. We negotiated a month ago a $72.5 million agreement based on certain policy reforms, including divestiture of State enterprise. They agreed to that, and we agreed to disburse. We have signed up that money, and the money is being disbursed right now, so half of the total of $147 million has been obligated and is being disbursed at the moment.

The remaining total of $75 million is pending an agreement with the Hondurans of a comprehensive economic stabilization program. That remains until we define what the terms of that program will consist of.

Senator LEAHY. How close are you to being in agreement on that?

Mr. MCPHERSON. Probably not very close.

Mr. BROWN. I think devaluation is a crucial issue.

Mr. MCPHERSON. The reality is that we are saying that we don't wish to disburse until these changes are made.

Mr. BROWN. The new government will need that money when it comes in.

Mr. MCPHERSON. It is an important issue for us to deal with. We are not trying to be devious or indirect about it. We want to discuss that because we think that our holding this money back, there and some other places, is critical to getting the changes in place. A good discussion of that, from our point of view would be helpful.

Senator KASTEN. I just want to say, on a bipartisan basis on the committee, we are concerned about withholding those funds from Honduras at this time. We may have further discussions about it.

Mr. BROWN. Senator, I would agree, except that if you were to disburse that now, we have the elections, and if they are not going to make the policy reforms, we will have to come back to you for a supplemental to fund what the new government needs if we haven't got anything left in the till, and they have the same needs this government has and they have not addressed the policy reforms. If we disburse without conditions, it just means that their own resource availabilities will decrease, not increase, and we will have to come back for more money rather than being able to do it with less money.

Senator KASTEN. That is a point that I believe can be discussed and possibly debated.

FUNDING FOR INDIA

Let me touch on a couple of other areas, Asia and the Far East. Excluding the ESF, the Economic Support Funds, all of the countries in the Asian region show a reduction in your request as compared to current year, except for one country, and that is India. Why the special treatment for India, especially in light of that country's dismal record in the United Nations, and their unwillingness to support the United States in other international forums? Most recently, it refused to support the United States in the Security Council despite threats by terrorist groups to U.S. lives.

What is going on here? Why do we continue without any support whatsoever for U.S. policies, to fund India in a way, you could almost say, at the expense of other countries in the region that have been stepping forward to support us in different ways?

Mr. McPherson. I think that is a good and fair question. I believe we have a good answer, so let me run down through it.

Over the last several years there has been a modest pattern of aid levels to India going down, not tremendously, but going down, particularly when you combine the amounts for food aid with the development assistance numbers. We thought that this modest trend reflected some of the kinds of concerns that you expressed, and overall competing interests.

What we see in India today is very interesting. We are not quite sure what it means, and Mr. Ghandi is going to be here in a few weeks, in June, I believe. We look at the program to reduce taxes, which we think is an excellent move in India. It was just announced 10 days ago—the efforts to reduce government, to move more toward market forces.

Their question of aid levels to India involves other geopolitical concerns beyond that, but we see a lot of interesting things happening in India and, therefore, it is in that context that we basically kept the aid to India at the previous level.

Senator Kasten. Can you name one instance in the last year where India has supported the United States on a major foreign policy question?

Mr. McPherson. I cannot. I think that if you tried to defend levels to India on the basis of their support of the United States in international forums, they would have very little money, indeed, if you look at their record in the last couple of years.

Senator Kasten. One of the things that we have developed, in consultation with our Ambassador to the United Nations, is a scorekeeping of the percentage in which countries agree or disagree with the United States on key issues. Ambassador Kirkpatrick testified before us a week ago on the ten key votes for this year, and the percentage of support from India was zero. Zero, not one key vote did they support us in in the United Nations.

Mr. McPherson. That is true. Moreover, they frequently cause us enormous frustration in a lot of forums, there is no question about that.

I think that those U.N. votes need to be taken into consideration, need to be taken heavily into consideration. I am not here justifying the India account level based upon those votes, because, as I said, if you look at those votes as the only factor, the money totals would be extremely different.

Senator KASTEN. If you are not justifying it on that basis, what is your basis? How do you justify it?

Mr. MCPHERSON. India looks like it is fairly quickly evolving into a different set of economic problems, at a minimum. How far that will go, we don't know, but given the noises that we are hearing, it seemed that it was worth a relatively modest amount of money, only a couple million dollars relative to what we would have done with other countries. A relatively modest amount of money was worth taking those steps.

That is a judgment call, and we are not arguing accountability. Of course, you know basically the kinds of things about India that I am arguing about, and it is on that basis that we justify the request today, and in no way on the U.N. votes.

Senator KASTEN. I am not just picking on the United Nations, but anything anywhere, just show me one.

Mr. MCPHERSON. I have been to a lot of international conferences, and frankly it has been extremely frustrating. Our basic position is, let's see what Mr. Ghandi does.

AID TO CAMBODIAN LIBERATION MOVEMENT

Senator KASTEN. The House Foreign Affairs Committee has come up, I think, with an interesting program whereby funds would be made available to the democratic liberation movement operating in Cambodia. What is the administration's position on the proposal from the House Foreign Affairs Committee?

Mr. MCPHERSON. We are basically reviewing it, literally that. We talked about it some this morning.

Senator KASTEN. Do you lean toward, or are you against it? Can you be more specific? If you can't, I understand.

Mr. MCPHERSON. I think that it is fair to say that we are reviewing particularly closely the economic component of it, or the possible economic component. The most serious questions are about the rest of it.

Senator KASTEN. The subcommittee is interested in the administration's position on this issue. It is one that we ought to pay a lot of attention to.

Mr. MCPHERSON. I will have Mr. Greenleaf call you within a day.

Senator KASTEN. We are anxious, on an ongoing basis, to work with you and Charlie, however this seems to work.

MANAGEMENT OF CENTRAL AMERICA PROGRAM

I know that our time is limited, but let me talk for a minute about the management questions in Central America. As you might expect, I want to address the management difficulties with the Central American Program.

As you are aware, I think, the subcommittee staff and others have been examining the problems over the last several months and have found a number of serious deficiencies, and you have responded to some of those. The basic question that we have is whether or not you have in place the management tools necessary to match the commitment in dollars given to Central America by the Congress over the last year. I understand that the Central American Program is to be your No. 1 priority, and this is right here and right now. Are there any management tools that you lack, or things that you need, or things that we ought to try to help you with in order to have in place in a logical way that we can track it, speedy and effective implementation of the Jackson Plan for Central America?

We have appropriated the money, but there is a question as to what kind of management tools are in place.

Mr. McPHERSON. Let me comment on it generally, and then Mr. Brown will have a comment.

First, let me say that I think Jim Bond has been very helpful to us in identifying and talking through some of the questions. He and I and Mr. Brown talked it through several times. We think that as a result of those discussions, and work prior to that, that we have made some key steps. We have identified the 34 positions that we think are key, the key personnel, and most of those people are going to be there by the end of this month. Twenty-five are there now, and within a few weeks another four or five will be there.

We certainly have made Central America a priority in the memos that I sent out.

Senator KASTEN. A priority, or the priority?

Mr. McPHERSON. We have two priorities, and I listed them in this order—first, Central America and second the famine in Africa. I think that we are really mobilizing on both of those. We are getting our audit capacity in place. We really need something from OMB that we are having discussions about. I need some waiver authority so as not to get locked into extensive rules and regulations that have just come on the scene from the Federal Government on Sunday. I am getting a hearing on that, and I hope that I can get that done quickly as well.

Senator KASTEN. Without committing one way or the other, you understand that if it is an OMB question, or if it is a State Department question, we agree on the goal, I think, and the question is how do we get there. If there are ways that this subcommittee can be of help, we are anxious to be of help.

Mr. McPHERSON. We will take advantage of that.

Mr. BROWN. Your help has been very important to us in Central America, and we appreciate it. Apart from the health vitalization project in El Salvador, our record has been a good one.

Senator KASTEN. I have another question about that.

CENTRAL AMERICA SPENDING

Mr. BROWN. Our record has been a good one. In 1984, we disbursed more project money, $134 million, than we obligated in new project money—some $125 million. So we are actually spending our project assistance faster than we are obligating it, and that has never been done before in this region.

In the 4-year period, fiscal years 1980 to 1984, we disbursed $1.4 billion in Central America, and our pipeline only went up 10 percent. So the money is getting through to the people in the countries, and the pipelines are not growing. The pipelines in the countries are fairly young, and with the one exception of El Salvador, they are disbursing effectively.

We have some 100 projects in Central America and approximately $700 million in active projects. I think that with the increased staff and the additions that we are getting, we will be able to do a good job.

HEALTH SYSTEMS VITALIZATION PROGRAM

Senator KASTEN. You brought up the health systems vitalization project. All the records indicate that $600,000 in assistance is not adequate. Senator Inouye and I both have an interest in this, as you know.

Mr. BROWN. I am sorry, I didn't follow you.

Senator KASTEN. Last week you said that only $600,000 of project funds was specifically required for emergency medicine and health supplies.

Mr. BROWN. For the immediate needs.

Senator KASTEN. The answer is, immediate needs, how do you define immediate?

Mr. BROWN. No, it was at the time we were seeking the assistance, there was an immediate need in the country to get health supplies and medicines into it.

Senator KASTEN. Jim points out that the entire $19 million was theoretically for emergencies, and now you are saying $600,000 was emergency. What is the bottom line? We have four- and five-page letters from you, and I have learned that the longer the letter, the more evasive the response is.

Mr. BROWN. We didn't do a good job in describing the project when we asked for the assistance. We apparently characterized it too much as an emergency, rather than an immediate emergency phase, and then dealing with a chronic shortage that El Salvador is experiencing. We filled the immediate need, and we have been fumbling to fill the chronic shortage ever since. That is the problem that we have had with procurement. We think that we now have that licked through GSA procurement. We have special handling over there. All of the orders have been placed, and 6 million dollars' worth of commodities will arrive in the country. We had a very difficult startup period, and we lost 6 months.

Mr. McPherson. I think the reality is that we just didn't get—we got some medicine there quickly, and you can define that as immediate.

Mr. Brown. We didn't have penicillin, and we had to have sutures, and there was an immediate and urgent need for that kind of thing.

Senator Kasten. Once more, this is an initiative that we will continue to struggle along with you on, and to the degree that we can prod and poke a little, we will continue to do that as well, but, again, we share the goal.

CASH TRANSFER TO EGYPT

Last year, our subcommittee proposed a transfer of $300 million to Egypt with the intent of providing increased budget support for Egypt. That eventually became $100 million of cash transfer in the conference with the House, still intended as budget support.

Now in your 1986 request, you are requesting a $100 million cash transfer taken out of the commodity import program, the other budget support program. It seems to me that you are not dealing with the congressional intent. Why is it that you are in a way circumventing the intent of Congress with respect to increased budget support for Egypt by providing the Congress' $100 million, and denying the intent by taking the new funds out of the commodity import program rather than out of project money?

What are we doing here? We tried for $300 million, and we are now at $100 million. The intent, it seems to me ought to be clear. We discussed this once or twice privately, and I think in some hearings as well. But now once more, we seem to go around the basic intent, $100 million in budget support, cash transfer, it is that simple. It is getting clogged up once more.

Mr. McPherson. The commodity import program disburses over an 18-month period. It is faster disbursing than sewer and water construction projects, but it is not as fast as cash. We would hope that at another time, to the extent that there is cash, there can be a reduction of the commodity import program. We are dealing very directly with it by saying, that is what we would like to do. The reason is that we are doing a lot of really good things in Egypt. We used to hear a lot of complaints about the Egypt program. My sense is that over the last couple of years particularly, it has gotten to be a pretty strong program.

President Mubarak was here a couple of weeks ago, he and President Reagan were very pleased with our sewer and water program, our decentralization efforts, and a number of other things that are quite visible to the Egyptians. I would hate to reduce sewer and water——

Senator Kasten. Don't put me up against sewer and water. As you know, there a number of different projects in Egypt that are not spent out. We are simply asking you to take, it turned out to be $100 million, it started out being $300 million, to simply take that money from the projects and put it into cash transfer, as opposed to taking it out of the commodity import program which was not the intent.

I hope that you are aware that this is not what the Congress intended.

Mr. McPherson. I would like to suggest this, Senator. I would like to suggest that we sit down, or that someone sit down with Jim Bond as your representative, and go down the list of fiscal year 1986 projects and talk about where we take it from.

Senator Kasten. Figure out where we are going to take it from?

Mr. McPherson. At this juncture, we have a program which is tight. The Egyptian Government is no longer unified on this question, I don't believe. The facts are that the sewer and water people want what they want; the decentralization people want what they want; and the health people want what they want. We now have a program that has a political base of support because it is so concrete that no longer would they really want to reduce projects. We only have $515 million a year that are projects. If you take roughly 20 percent of those projects away by that $100 million, that is our problem.

Senator Kasten. We are anxious to work with you. I guess we are ending up with a lot of things that we are anxious to work out with you.

Mr. McPherson. This is not one of those things that can be worked out.

Senator Kasten. We do want to work with you.

AID TO CYPRUS

Congress provided $15 million in Economic Support Funds to Cyprus over the last couple of years. I understand that then AID and State turned this funding, in a sense, over to the United Nations High Commissioner for Refugees [UNHCR]. They, then, were supposed to expend this money on the different programs in Cyprus.

It is also our understanding, correct me if I am wrong, that major procurements using the $15 million, did not involve U.S. sources. Why haven't we, or you, or State instructed UNHCR to work with U.S. sources when materials are purchased with those funds, and why haven't we been able to see at least some U.S. participation in the UNHCR programs on Cyprus?

It seems to me that we just lost the whole U.S. part of it in terms of the source, the kinds of products, the people responsible, et cetera.

Mr. Langmaid. Mr. Chairman, on the program itself, there are two aspects to the program. One is a training project which is very much U.S. focused. It brings Cypriots to the United States. About half of the program goes into this training, which is run by Amideast, a U.S. private organization.

Senator Kasten. My understanding was, of the $15 million, you have allocated $3 or $4 million for training. Am I wrong about that?

Mr. Langmaid. This year we are planning about half or $7.5 million for training. It has varied from year to year.

Senator Kasten. In the past it has not been that kind of a mix.

Mr. Langmaid. The training program started about 2 years ago. The other component is a longstanding grant program with the UNHCR, under which they run a variety of small projects following U.N. procurement and administration rules. It is run as a grant to a U.N. organization. The U.S. procurement issue was raised last year by one of the committees that traveled to Cyprus. We are working with the Cypriots to see whether we could procure U.S. goods and services and then donate them to the UNHCR. We have not found a way to have the United Nations favor U.S. products using its own procurement system.

Mr. McPherson. We felt that we had to use the UNHCR for political reasons basically.

Mr. Langmaid. There is no other organization working on both parts of Cyprus at the present time. The only way to have a program that is balanced confessionally is to use the UNHCR.

Senator Kasten. It seems to us that we can do more. I understand your reasons for giving the assistance part, but what I am worried about is the procurement part. Is there more that we can do to encourage them, in fact, or require them to use U.S. sources for some of the procurement, for some of the things that are being provided for the Cypriots?

Mr. Langmaid. I am not aware of any way that we could require them to use U.S. procurement. What we are trying to do, Mr. Chairman, is to identify major procurements which we could make directly, and then instead of giving money to the UNHCR, we could donate in-kind.

Senator Kasten. That is exactly the point, if we can get U.S. source procurements with these dollars, even though the dollars are being expended on behalf of the UNHCR.

Mr. Langmaid. We are also looking at other kinds of projects, possibly using the UNDP as an implementing agent for capital construction, where we could identify specific elements to finance.

Senator Kasten. We are going to adjourn temporarily. There are a number of questions that I have that have not been asked. We will submit those questions for the record along with some questions from Senator DeConcini, in particular, and other senators in general, may have. We will submit those questions to you, and hopefully you can get back to us with the answer.

SUBCOMMITTEE RECESS

We will conclude this morning's hearing. The subcommittee stands in recess until 2 p.m.

[Whereupon, at 11:35 a.m., Tuesday, April 2, the subcommittee was recessed, to reconvene at 2 p.m., the same day.]

(AFTERNOON SESSION, TUESDAY, APRIL 2, 1985, 2:15 P.M.)

AGENCY FOR INTERNATIONAL DEVELOPMENT

STATEMENT OF M. PETER McPHERSON, ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT

ACCOMPANIED BY:

- NYLE C. BRADY, SENIOR ASSISTANT ADMINISTRATOR, BUREAU FOR SCIENCE AND TECHNOLOGY
- JULIA CHANG BLOCH, ASSISTANT ADMINISTRATOR, BUREAU FOR FOOD FOR PEACE AND VOLUNTARY ASSISTANCE
- CHRISTIAN R. HOLMES, DIRECTOR, TRADE AND DEVELOPMENT PROGRAM
- JULIUS W. BECTON, JR., DIRECTOR, OFFICE OF U.S. FOREIGN DISASTER ASSISTANCE
- NEAL PEDEN, ASSISTANT ADMINISTRATOR, BUREAU FOR PRIVATE ENTERPRISE
- R.T. ROLLIS, ASSISTANT ADMINISTRATOR, BUREAU FOR MANAGEMENT

INTRODUCTION OF WITNESSES

Senator KASTEN. The subcommittee will come to order.

This afternoon, we will continue our hearing on the Agency for International Development.

In addition to Mr. McPherson, I understand that we will have brief statements from Nyle Brady, Senior Assistant Administrator of the Bureau for Science and Technology; Julia Bloch, Assistant Administrator for the Bureau for Food for Peace and Voluntary Organizations; Chris Holmes, Director of the Trade and Development Program; Julius Becton, Director of the Office of U.S. Foreign Disaster Assistance; Neal Peden, the Assistant Administrator of the Bureau for Private Enterprise; and Tom Rollis, the Assistant Administrator of the Bureau of Management.

PREPARED STATEMENTS

As we did this morning, we will insert all of the statements in the record in full, and ask that each of the assistant administrators make a brief overview or give a summary after you have made your overall statement.

[The statements follow:]

PREPARED STATEMENT OF N. C. BRADY

Senior Assistant Administrator
for Science and Technology
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

Science and Technology -- new ideas put to use -- are the basic tools of development. To sustain improvements and become self-reliant, developing countries must build their capacity to create, adapt and apply new technological ideas. Through its Bureau for Science and Technology (S&T), A.I.D. provides scientific and technical leadership both within the Agency and in the worldwide development community. As developing countries improve their ability to generate and use new ideas, the S&T Bureau assists in four important ways: global research, global technical services, technical field support, and collaborative research and development.

First, we support global research to overcome worldwide barriers to food and fuelwood production, disease control, training and education, and reduced fertility. For example, we generously fund many of the international agricultural research centers (IARCS).

Through assistance to such IARCs as the International Rice Research Institute (IRRI) and Centro Internacional de Mejoramiento de Maiz y Trigo (CIMMYT), we helped to forge the "green revolution." This giant step in agriculture vastly increased the productivity of small and medium-sized farms in Asia and Latin America through the introduction of hardier, higher-yielding varieties of wheat and rice which were used in combination with irrigation, more fertilizer and better farming practices.

For several years, support for agricultural research in Africa has been a primary pillar of A.I.D.'s development assistance program. Some recent breakthroughs include a drought-tolerant sorghum variety recently released in the Sudan. In field tests, this new variety produced much higher yields than had been grown by farmers using traditional varieties.

The International Institute for Tropical Agriculture (IITA) in Nigeria has developed new cowpea varieties with short growing seasons, tolerance to drought and resistance to viral and bacterial diseases; and a variety of cassava with three times the yield of native strains. Research has also yielded improved disease- and drought-resistant hybrid maize varieties which have been widely adopted by small farmers in Kenya and Zimbabwe. We continue to seek solutions to the severe agricultural barriers in Africa.

We support research efforts at the International Potato Center (Centro Internacional de la Papa/CIP) in Peru which include improvement of high-altitude potatoes now being adopted in Latin America and East Africa, and development of potato varieties for lower tropical regions. The center's efforts are leading to important breakthroughs which will increase the availability of this high-calorie and relatively high-protein food.

Through our International Benchmark Sites Network for Agrotechnology Transfer (IBSNAT), we are developing computerized models of optimum soil/climate/crop combinations. The models should help increase the success rate of technology transferred from research sites to farmers' fields. We envision that the computerized data base being accumulated by IBSNAT will eventually serve as a worldwide information bank.

Other A.I.D.-supported research employs new technologies to improve livestock production, particularly in Africa. The International Livestock Center for Africa (ILCA) is studying the productivity of native cattle (Ndama) that show a degree of resistance to trypanosomiasis (sleeping sickness) under different levels of tsetse and trypanosomiasis stress. The International Laboratory for Research on Animal Diseases (ILRAD) in Kenya is focussing on research to create an effective vaccine for trypanosomiasis. To obtain disease-resistant animals for this research, ILRAD has successfully transplanted embryos from Ndama cattle in West Africa to stock at the center in Kenya.

ILRAD is also developing a vaccine against Theileriosis (East Coast Fever), an acute cattle disease that is transmitted by ticks. At the International Center for Insect Physiology and Ecology (ICIPE), A.I.D. is supporting research to develop tick-resistant cattle. This research could have worldwide implications for East Coast Fever and might be expanded to address other tick-borne diseases in cattle.

In response to worldwide concerns, A.I.D. also gives sharp attention to forestry and fuelwood problems. Our efforts focus on assessment, improvement, and management of multipurpose tree species; increased participation of experts in A.I.D.'s forestry efforts; and increased support for research on agroforestry farming systems, particularly in regions where there are shortages of both food and fuelwood.

Biological research within our agricultural and natural resources programs have a direct linkage to biological diversity concerns. The identification of native animal and plant species continues to be an important part of the agricultrual and forestry research activities we support. Institutional and socio-economic issues relevant to the preservation of biological diversity also are addressed within the context of rural development and multisector research efforts that focus, for example, on the problems of fragile lands and their sustainable, productive use.

In the area of health, A.I.D. is supporting a number of research efforts of global significance. One such effort, which achieved a major breakthrough in 1984 after nearly 20 years of A.I.D. support, is research to develop a vaccine against malaria. Scientists at New York University, with A.I.D. funding, identified a simple protein in the material which surrounds the sporozoite -- the infective form of the malaria parasite. Next, they isolated the gene which produces this circumsporozoite protein and, using genetic engineering technology, demonstrated the capability to mass produce this protein for a prototype vaccine. Additionally they have now synthetically produced the material which is the basis for the anti-sporozoite vaccine. A.I.D. support for malaria vaccine research this year will begin to focus on field clinical trials of the prototype vaccine and on the development of other elements of the polyvalent vaccine which ultimately is needed to protect LDC populations against malaria.

One of the more dramatic findings that has come out of research at the International Center for Diarrhoeal Disease Research in Bangladesh (ICDDR/B) -- supported for more than 25 years by A.I.D. -- is that an oral solution made up of locally available water and a simple, prepackaged mixture of sugar, salt and potassium is highly effective in treating dehydration due to diarrhea. This easy-to-use technology -- called oral rehydration therapy (ORT) -- will have a major impact on reducing child mortality caused by dehydration. Building on these findings, A.I.D. has fostered research on cereal-based oral rehydration salts at ICDDR/B and other new oral rehydration therapies at the World Health Organization (WHO) and elsewhere. These new oral solutions are promising not only for the treatment of dehydration, but also for dealing with the underlying malnutrition. A.I.D. also funded the ICDDR/B research which has shown that all of the currently used cholera vaccines are ineffective. In 1985, we are focussing our support on the center's field testing of two new oral cholera vaccines.

Also, in Honduras and The Gambia, our Mass Media and Health Practices project has demonstrated that radio and simple printed materials can be used effectively to train people in the use of ORT and other health technologies. These mass media techniques are coordinated with the activities of village health workers to educate rural mothers in the use of health practices that improve maternal and child health.

As an action agency involved in family planning programs, A.I.D. supports research in fertility regulation -- including Natural Family Planning methods -- and contraceptive research. Consistent with the principles of voluntarism and free choice, we are developing a wide variety of new, improved contraceptive methods and are supporting their introduction into many kinds of developing country settings.

To support programs in other sectors, A.I.D. is developing education and communication technologies. Use of mass media in promoting better health practices is one example.

Another is the Communications for Technology Transfer in Agriculture project which is developing communications techniques to link research, extension and private sector agricultural institutions. Mass media techniques will be used to reduce the isolation of research institutions and to increase contact between extension agents and farmers. In addition to using radio and other non-traditional methods, our education program is experimenting with satellite telecommunications for distance teaching and is beginning to work with microcomputers.

A.I.D. uses a variety of collaborative arrangements within the global research community. For example research networks of scientists from international centers,. U.S. universities and developing country research centers involves the expertise of performers who have a comparative advantage in specific areas of essential research. This networking approach should reduce the time and the human and financial resources needed to find solutions to the critical problems of development and to facilitate introduction and adaptation of new technologies to specific developing country conditions.

The second major way in which the Science and Technology Bureau helps developing countries build their capacity to create, adapt and apply new ideas is through sustained provision of global technical services. For example, in population planning, we support long-term delivery of worldwide services through grants to major intermediaries. Through private sector marketing, promotion and distribution, we support continuing activities to increase the availability, knowledge about and correct use of contraceptives.

To make the products of ORT research readily available to host country leaders and program managers for use in existing health-care programs, we are sponsoring a series of global and regional conferences on this important treatment. In 1983, we co-sponsored an International Conference on ORT (ICORT I) with UNICEF (United Nations International Children's Fund), WHO and ICDDR/B. This year, we are sponsoring regional conferences and are planning a second global conference (ICORT II) for November 1985.

We have also developed a centrally-funded, three-year project to provide developing country leaders and health providers with the information they will need to incorporate ORT into national health policies and programs. Under our Child Survival Action Program, through private voluntary organizations and multilateral organizations as well as government-to-government programs, we will emphasize increased technical assistance in the use of key health interventions such as ORT and immunization.

We are continuing and expanding environmental profiling efforts which provide developing countries with necessary information about the condition of their natural resources.

The third way in which we help developing countries to use new technology is through the provision of short-term technical field support to our missions, host countries, private voluntary organizations and to the Peace Corps. This support includes science-related surveys and feasibility studies, and assistance in project planning, design and evaluation.

Health projects such as PRITECH (Technology for Primary Health Care) and WASH (Water and Sanitation for Health II) provide a variety of short-term services to strengthen primary health care programs and to improve household water supplies and sanitary facilities. In agriculture, we are currently sponsoring a Caribbean Area Food Irradiation Feasibility Study which will compare food irradiation with other technologies that can replace banned pesticides such as Ethylene Dibromide (EDB). We also help countries to identify energy resources such as coal organic wastes and falling water that can be substituted for imported petroleum fuels.

Finally, in order to build developing country self-sufficiency in the exploration and use of new ideas, we sponsor collaborative research and development between U.S. and developing country research institutions. These programs are beginning to take the form of networks which include A.I.D.'s Science and Technology Bureau and one or more of the Agency's Regional Bureaus. The research often involves finding answers at two levels: solutions to region-wide problems; and adaptation of solutions to local needs and conditions.

Through Title XII grants, we have implemented collaborative research support programs (CRSPs) involving U.S. agricultural colleges and universities. Much of the CRSPs' work is carried out in cooperation with developing country research institutions; in this way we help to build indigenous research capacity.

CRSP research has already yielded many breakthroughs, some of which have extensive current or potential value to agriculture in the United States as well as in developing countries. For example, the Peanut CRSP has developed a process for reducing aflatoxin levels in the peanut and peanut oil food chain in this country as well as elsewhere. Research under the Small Ruminants CRSP is responsible for: the eradication of a goat disease, Caprine Arthritis-Encephalitis (CAE), in Kenya, and the recent breakthrough in development of a freeze-dried stable vaccine for another African goat disease (Contagious Caprine Pleuro-Pneumonia, or CCPP). Other CRSP successes include the development of hardier cowpea and sorghum varieties.

A.I.D. also supports research collaborations with other U.S. agencies such as U.S.D.A.; U.S. and host-country private voluntary organizations; developing-country national institutions; and multilateral organizations such as UNICEF, WHO, UNDP (United Nations Development Programme), and the World Bank. One such network focusses on improved use of irrigation technology in Asia. This Water Management Synthesis II project is evaluating current irrigation practices to determine what changes will really improve the efficient use of available water, particularly in areas of low rainfall.

Another networking endeavor focuses on Improving the Efficiency of Educational Systems in the Africa region. Over the long-term, this initiative will build indigenous institutional capacity to analyze the existing educational structure and to plan, design, manage and evaluate improved educational programs. Host country professionals are being trained in research techniques, microcomputer applications, low-cost learning technologies, and systems management. The large scope of the project also makes it possible for A.I.D. to engage in high-level policy dialogues with the cooperating country governments.

In the Latin America and Caribbean region, we are planning a project in Development Strategies for Fragile Lands. Collaborative research will focus on slowing deterioration and increasing productivity in marginal agricultural areas.

To support and enhance all of our endeavors, we develop an array of participant training programs to build an indigenous cadre of health service providers and agricultural extension workers, as well as to train participants to work effectively in other disciplines. Through our Office of International Training, S&T also arranges and monitors training of participants under A.I.D.'s bilateral projects and programs.

The Bureau for Science and Technology is requesting just under $113 million ($112.987) to continue our population planning efforts in FY 1986. Of this amount, a large portion will fund services provided by private sector, voluntary and other non-governmental and international population planning organizations. Other major S&T budget requests for FY 1986 are: $40 million for agriculture and $23 million for health.

Funds for energy, nutrition, rural and institutional development, education, forestry, and environment and natural resources are also requested.

A.I.D. in general and its Bureau for Science and Technology in particular perform a crucial role in building the capacity of less developed countries to create, adapt and apply new technologies that will help them become more equal partners in global progress. In the face of many constraints, our nation's development assistance efforts and our scientific and technological community continue to provide specific and practical answers that over the long term can make the vision of Third World self-reliance a reality.

PREPARED STATEMENT OF JULIA CHANG BLOCH

ASSISTANT ADMINISTRATOR
BUREAU FOR FOOD FOR PEACE AND VOLUNTARY ASSISTANCE
AGENCY FOR INTERNATIONAL DEVELOPMENT

I am Julia Chang Bloch, Assistant Administrator of the Bureau for Food for Peace and Voluntary Assistance. I am pleased to have the opportunity to talk to you today about our proposals for the Development Assistance-funded programs of the FVA Bureau, which includes the Office of Private and Voluntary Cooperation, American Schools and Hospitals Abroad and Food for Peace.

For FY 1986, we are requesting $38.8 million for programs funded from the Development Assistance Functional Accounts and $10.0 million for American Schools and Hospitals Abroad.

As in the past, the major part of our functional account request - $28.7 million - will fund the PVO grant program administered by the Office of Private and Voluntary Cooperation. That program - consistent with AID's policy on Private and Voluntary Agencies - emphasizes support for field projects of PVOs with proven development capabilities; and provision of that support in a way that maximizes the privately-generated resources that the PVOs themselves bring to these activities. Our objective is two-fold: to increase the development impact of AID-supported PVO programs while at the same time taking care that our assistance does not compromise the privateness and independence that are essential to the continued credibility and well-being of the organizations that make up the PVO community.

The programs we support enable U.S. PVOs to carry out a wide variety of development activities in agriculture, rural development, health and education. They are directly responsive to Agency priorities in institution-building, small-scale private enterprise and the transfer of appropriate technology. And they are effective in carrying out these priorities at the grassroots level where they benefit people frequently unreached by larger government-administered activities.

Virtually all of these centrally-funded grants are provided on a cost-sharing basis. PVOs match AID funds with at least equal private resources in approximately 80% of the grants provided by the Office of Private and Voluntary Cooperation supporting PVO field programs. Thus, these programs are an important means of strengthening collaboration between the American public and private sectors as well as a significant catalyst in increasing the magnitude of the overall U.S. contribution to economic and social development.

Evaluation of past experience is an increasingly important tool in shaping the design and implementation of AID-supported PVO activities, to improve their impact and cost-effectiveness. AID and the PVOs together have made significant progress in systematically assessing performance; institutionalizing the evaluation function within the PVOs themselves; disseminating evaluation findings to users; and using these findings to better inform decisionmaking. In recent years, AID has moved increasingly from limited project-specific evaluations to comparisons of PVO performance within a broader sectoral framework. For example, in the small-enterprise sector, we have assessed a wide variety of PVO field projects; supported a series of workshops to identify lessons learned; and shared the results of these efforts widely among AID, the PVOs and other development agencies. Similar evaluation-based efforts are now underway with respect to PVO activities in the fields of health and institution-building.

I would note that programs funded by the FVA Bureau comprise only one element in AID's extensive and varied support to PVOs. For FY 1986, we expect such support to total approximately $318 million, exclusive of PL 480 Title II commodities and related ocean freight.

As part of our FY 1986 request, we are also proposing $2.7 million in support of the ongoing Development Education Program authorized by the Biden-Pell Amendment. Its major component is a competitive grant program that provides support on a cost-shared basis to PVOs and other private, non-profit organizations for activities designed to educate Americans about world hunger and related development issues. The Development Education Program has expanded each year since its inception in 1981 and current requests considerably exceed available funding. The modest increase we are proposing in FY 1986 reflects AID's continuing commitment to the goals of this program and our awareness of its growing contribution in creating an informed public environment for discussion of the complex issues involving world hunger and poverty.

Our FY 1986 request also includes several Development Assistance-financed activities supportive of the Food for Peace Program. These dollar-funded activities are a small but essential component of AID's effort to insure that food aid is timely, well-targeted, soundly designed and effectively administered. They help us not only to respond knowledgeably to immediate needs as in Africa but also to utilize food aid in ways that help reduce the future need for such assistance. The Title II Outreach Project, for example, provides grants to PVOs to help cover the logistic and material support costs of assuring that Title II food aid reaches the truly needy in Africa and the poorest countries of Latin America. A related project, Title II Program Enhancement, will help PVOs improve the development impact of Title II resources by strengthening their capability to design and implement complementary activities, e.g., in health, education and training, in order to increase the effectiveness of their supplementary feeding programs.

Lastly, AID is requesting $10 million in FY 1986 for the American Schools and Hospitals Abroad (ASHA) program. This program assists private, non-profit schools and hospitals overseas which are founded or sponsored by U.S. citizens but which serve citizens of other countries. These institutions meet all or most of their operating expenses from sources other than the U.S. Government. For example, in FY 1984 ASHA assisted 40 institutions with annual operating costs of $343 million.

ASHA grants provide the financial margin which makes it possible for these American-sponsored institutions to pursue excellence in human resource development and institution building -- the financial power to build facilities, purchase equipment and, in some cases, to maintain their educational and medical programs.

Currently, more than 134,000 students from 104 countries are studying at ASHA-assisted institutions. They are studying in their own country or region in such disciplines as agriculture, business, public administration, economics, medicine, nursing, public health, education, engineering, as well as the arts and sciences. More than 3.3 million persons receive medical services each year from ASHA-assisted hospitals and their community health and outreach programs.

A number of institutions have regional impact and their location illustrates the geographic diversity of the ASHA program. Presently active grants are assisting institutions in Botswana, Brazil, Egypt, Greece, Guatemala, Haiti, Honduras, India, Israel, Jamaica, Jordan, Korea, Lebanon, Liberia, Malawi, Mexico, Philippines, Poland, Rwanda, Sudan, Tanzania, Thailand, Turkey, the West Bank, Zambia and Zaire.

During the past four years, Fiscal Years 1981-1984, grants totaling $90 million were awarded to 59 institutions. The majority of this assistance (69%) helped to finance classroom, laboratory, library and dormitory construction, as well as scientific, teaching and medical equipment. The remainder provided operating assistance to institutions unable to fully meet operating costs from private sources. The majority of the grants and funds are benefiting institutions in Africa, Asia and Latin America/Caribbean. Forty-three percent of the funds are benefiting institutions in the Near East (Egypt, Israel, Jordan, Lebanon, Turkey and the West Bank).

ASHA is a competitive grant program and one of its aims is leveraging private contributions to assist activities overseas. Priority in FY 1986 will be given to those institutions that have a good record of self-help and offer the greatest potential for developing human resources.

PREPARED STATEMENT OF CHRISTIAN R. HOLMES

DIRECTOR

On

U.S. TRADE AND DEVELOPMENT PROGRAM

I am pleased to have the opportunity to testify on behalf of the Administration's Fiscal Year 1986 appropriation request for the Trade and Development Program.

The United States Trade and Development Program is a component agency of the International Development Cooperation Agency. TDP is charged with a two-fold mission: (1) to support the economic development of friendly developing countries; and (2) to help increase U.S. exports. It accomplishes these objectives by financing feasibility studies and other project planning services for projects which represent significant opportunities for substantial U.S. exports and are of high development priority to the host country.

In keeping with the Administration's effort to reduce the Federal budget deficit, the Administration's request for the TDP FY 1986 budget is $20 million, which constitutes a $1 million reduction from the FY 1985 level of $21 million. This funding level will allow TDP to continue to finance planning services on critical development projects which offer significant export opportunities for U.S. firms. Our request will also help counter aggressive funding offers of our major trade competitors in support of their own firms.

The recently issued report of the President's Task Force on International Private Enterprise found TDP to be the only U.S. Government agency whose activities directly link the development and trade objectives of this Administration. TDP finances project planning services, including pre-feasibility and feasibility studies, and technical symposia to assist foreign governments initiate capital projects which are central to their development efforts and represent significant export opportunities for U.S. technology, equipment and services.

CRITERIA

In FY 1986, we plan to apply the same criteria we have used since FY 1980 in the selection of projects to be financed by TDP. Our three fundamental criteria are:

-- the project must benefit the country's overall development;

-- the project must offer a strong possibility of being financed if the feasibility study proves positive; and

-- the project must itself represent a significant potential export market for U.S. firms.

In accordance with our authorizing legislation, TDP will also concentrate on the so-called middle-income countries, those countries in which U.S. AID programs have been concluded or which do not receive U.S. foreign assistance. For FY 1984, approximately $8 million or 54% of TDP's budget was devoted to non-AID countries. In FY 1986, we anticipate that at least 50% will be spent in non-AID countries such as Colombia, Brazil, Argentina, Turkey and China.

SPECIAL EMPHASIS: REGIONS

As to specific regions, TDP, within the limits of its criteria and legislative mandate, will concentrate in FY 1986 on countries and regions which are of particular importance to the Administration's foreign policy. In this regard, the Caribbean Basin and the Association of South East Asian Nations (ASEAN) region will continue to be of special priority to TDP. We should also note that in FY 1986 we expect that Turkey and China will command a significant portion of TDP's budget.

SECTORS:

TDP will continue to concentrate on projects in the energy, industrial, agribusiness, infrastructure and strategic minerals sectors. Let me briefly provide you with examples of projects in our major sector, energy. We anticipate that in FY 1986 energy will continue to be our major area of concentration.

In energy, our overall thrust has been to help countries develop significant alternatives to oil: studies of coal-fired power plants in Thailand, Brazil and Turkey; studies of the development of indigenous lignite resources in Thailand, the Philippines, Indonesia and Turkey; studies of the conversion from oil to coal of the public power systems in Jamaica and Cyprus; studies of the use of solar energy in Brazil, solar ponds in Botswana, geothermal resources in St. Lucia, large-scale hydropower projects in Thailand, Malawi, Liberia and China, mini-hydro in Malaysia and other alternative energy technologies such as fluidized bed combustion in Brazil and Thailand and conversion of coal to methanol in Panama. For each of these projects, TDP followed the lead of the host country in assisting it to explore its own energy sources, solar, hydro, lignite, etc., to develop greater supplies of less expensive energy. TDP's efforts to assist development initiatives in the energy sector are exemplified by our program in Thailand.

Thailand's most recent Five Year Plan called for increased emphasis in the energy sector of the development of domestic energy sources and on energy conservation to decrease the country's dependence on foreign oil. Accordingly, almost $2 million of the total $3.4 million TDP has spent in Thailand since FY 1981 has been in energy-related projects. TDP has assisted the Electrical Generating Authority of Thailand (EGAT) in identifying projects that would meet the country's goal of increasing domestic energy production from 11 percent of total commercial energy requirements in 1981 to two-thirds of commercial energy consumption by 1990. TDP has funded lignite studies in the Mae Moh and Krabi regions; a coal generating power plant at Ao Phai; a hydropower project in Upper Pasak; a methanol utilization study, and several other projects intended to increase the utilization of Thailand's energy potential. These projects hold potential for greatly expanded U.S. exports as growth of the energy sector progresses.

As is true elsewhere in Asia, Indonesia has also determined that energy alternatives for oil must be developed. The latest development plan, covering the period 1983/84 to 1993/94, establishes that energy growth is to be achieved primarily through the construction of coal-fired power plants to reduce the oil-based electrical generation from the current 81 percent of the total to about 27 percent in 1993/94. Accordingly, TDP has financed five studies of energy-related projects over the last three years in Indonesia.

Likewise, Turkey is putting major emphasis on diversifying from oil imports. TDP is funding several project studies in this sector in Turkey, including a U.S. investor study for a coal-fired plant on the Aegean Sea based on high grade imported coal and a lignite mining assessment for a thermal power plant to be developed by an American-Turkish consortium.

In Colombia, now a net oil importer, a TDP-funded study has demonstrated the economic and technical feasibility of an enhanced oil recovery process which, together with a new refinery, should make Colombia an exporter of petroleum. This will release substantial amounts of foreign exchange for capital goods imports.

STRATEGIC MINERALS

Because TDP is encouraged to facilitate access to minerals of interest to the United States, TDP has a program to encourage U.S. private sector investment in mining projects involving strategic minerals. In 1984, TDP was involved in five such activities to develop minerals in four countries. One project involved the production of cobalt in Peru which could provide more than 10 percent of U.S. cobalt needs from a secure source. In FY 1985 and 1986, we will continue with our strategic minerals initiatives.

FOREIGN COMPETITION

The U.S. business community believes that the feasibility study programs of the U.S.'s export competitors have impaired U.S. export competitiveness, particularly in the capital scarce markets of the Third World. Foreign competitor governments, particulary the Japanese, offer attractive incentives to foreign governments to involve their firms in major export markets. In Indonesia alone, Japan has a program similar to that of TDP, but with a $50 million budget, more than twice TDP's worldwide program. These incentives frequently include feasibility study financing, followed by attractive export financing packages. That the United States may have the best technological edge is a fact that may be overlooked in the face of such incentives being offered by other countries. The result is that the United States loses export markets and developing countries receive less than optimal projects and equipment.

The adverse impact on the U.S. economy of governmentally supported competition and the strength of the U.S. dollar is highly significant. The four year slippage in the U.S. merchandise balance of trade, from a negative $27.9 billion in 1980 to a negative $123 billion in 1984, represents a loss of almost 2.6 million U.S. jobs and a corresponding loss of $23 billion in U.S. Treasury receipts, according to U.S. Government estimates.

IMPACT OF THE TRADE AND DEVELOPMENT PROGRAM

While TDP's impact on this situation is modest, it is nevertheless significant. Decisions made during the planning and design stages of a capital project greatly influence the selection of technology, services and equipment to be used in project implementation. By encouraging the use of U.S. firms in the planning and design of a capital project, TDP participation increases the likelihood that U.S. technology, services and goods will be used in the project. Based on evaluations of TDP projects conducted from 1980-82, approximately $15 million in TDP-financed planning services have led to more than $800 million in U.S. exports under contract or presently being negotiated.

A recent example of the significant impact TDP can have is the TDP-financed orientation visit to the United States by the Chinese Vice Minister of Coal in FY 1984. The visit, costing TDP only a modest amount for a 10-person delegation, led to an immediate $2.3 million purchase of U.S. mining equipment and accelerated the selection of a U.S. engineering firm to undertake the feasibility study of one of China's six high priority coal gasification projects. The orientation visit exposed the Chinese to a wide range of U.S. engineering firms and coal-related equipment manufacturers and is expected to lead to additional sales of U.S. coal-related equipment in the future.

The exports generated by TDP from program expenditures in Fiscal Years 1980-82 represent approximately 21,500 jobs, based on the Department of 7Commerce's calculation that one billion dollars in exports represents 25,000 jobs. Assuming a similar export generation multiplier for the TDP FY 1983 and FY 1984 program budgets, which together total $23.9 million, U.S. exports generated over the life of the projects from fiscal years 1980 through 1984 could total between $2 and $3 billion. This represents approximately 60,000 to 75,000 U.S. jobs and, according to U.S. Government estimates, approximately $500 million in Government revenue and $375 million in unemployment compensation savings.

In closing, Mr. Chairman, I wish to stress that experience has shown that TDP is most effective when it is responsive to host governments' high priority major capital projects and pursues those that the Government is most interested in completing. TDP is also committed to broadening and diversifying the types of projects in which it is involved, particularly those proven to be critical to generating broad based economic growth and those which have the potential for generating substantial long-term exports of U.S. goods and services.

An example of TDP's efforts to guide the program in such directions is the provision of funding to the American Society of Agricultural Consultants International to survey and identify agribusiness opportunities for private investors in three countries—Costa Rica, Dominican Republic, and the Ivory Coast. The purpose of the grant is to develop future opportunities for investment and trade by United States companies in improving food security in the Caribbean and an important country in Africa. We are hopeful that this activity will lead to specific project definition and future development in this important sector.

In sum, the TDP approach toward project development entails responding to the development objectives of the countries. Since most countries do not have or follow project specific development plans, this approach necessarily precludes advance targeting. Rather, it is imperative for TDP to determine on a case-by-case basis the activities for which a country intends to spend its funds in a given year. TDP can assume general development directions but, in the final analysis, the economic realities each year determine which projects will be considered for ultimate funding.

The task for TDP is to remain current about developing countries' priorities and needs, to monitor the activities of foreign competition in the early planning stages of a country's development efforts and to create opportunities for U.S. firms to participate in the planning of projects. In meeting these objectives, we can help provide appropriate solutions to the capital development problems of the Third World and develop continuing relationships with developing country governments and private sector firms.

PREPARED STATEMENT OF JULIUS W. BECTON, JR.

OFFICE OF U. S. FOREIGN DISASTER ASSISTANCE

AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. Chairman:

Once again it is a pleasure to have the opportunity to discuss the activities of the Office of U.S. Foreign Disaster Assistance (OFDA) with this Subcommittee. The past year has tested the mettle of our Office in a number of ways. The critical problem of hunger in Africa has been virtually all consuming, requiring the establishment of an Interagency Task Force to supplement the resources of OFDA, AID's Africa Bureau and the Office of Food For Peace. Supplemental funding, appropriated in August 1984, gave OFDA responsibility for providing inland transportation for food distribution in Africa as well as for providing assistance for Miskito Indians in Central America and Afghan refugees in South Asia. We are pleased that we could respond to these humanitarian requirements despite the strain they have placed on our staff resources.

Nature has dictated that natural disasters of more traditional concern to OFDA have not diminished during this period. Some of the most devastating cyclones in recent memory have struck the Philippines, Fiji and Madagascar. Floods have taken their toll in Mozambique and elsewhere. An earthquake has left as many as a million people homeless in Chile. Excluding the African drought and supplemental programs, OFDA responded to thirty disaster declarations in FY 1984 and sixteen so far in FY 1985. In FY 1984, OFDA administered $44 million for relief, which included supplemental appropriations of $16 million for emergency food distribution in Africa, $7.5 million for assistance to Miskito Indians and $2.0 million for Afghan refugees.

It has been a year in which the Swedish Red Cross in the publication, "Prevention Better than Cure", came to the conclusion that natural disasters in fact are taking more lives throughout the developing world than ever before, due to increasing population pressures which force people to settle on marginal and unsafe lands.

We are doing what we can between crises to promote disaster preparedness, early warning and mitigation which have shown themselves over the years to be far more cost effective, albeit far less visible, than relief. In FY 1984 OFDA obligated $7.5 million for these activities. We recognize that effective and comprehensive solutions to this dilemma can only be brought about through the development process. We have spent a great deal of effort in encouraging development agencies, including private and voluntary organizations, to take the disaster threat seriously in planning and implementing their programs. It would be unconscionable if development programs ignored the most basic of human rights - the preservation of life itself.

To accomplish the tasks at hand we have reorganized during the past year to enhance our responsiveness. In conjunction with the Interagency Task Force on the African Emergency we have divided our workload to provide worldwide coverage of the sudden disasters while concentrating on the plight of the drought victims in Africa. My staff takes understandable pride in being able to respond immediately to life threatening situations anywhere in the world no matter what competing priorities claim their attention.

The drought in Africa has understandably claimed most of our time, energy and dollars. Had it not been for the untiring efforts of the Interagency Task Force, of which I was appointed Director last October by AID Administrator McPherson, we clearly could not have been as effective as we have. I must thank the senior officials of the Departments of State, Agriculture, Defense, Health and Human Services, Treasury, Transportation, Commerce, the Joint Chiefs of Staff, the Peace Corps, the Office of Management and Budget and the National Security Council for their support and expertise without which we could not get the job done.

There are still enormous problems to be faced in Africa. In some cases conditions are worse today than they were when the Task Force was established.

We have responded to the lifesaving needs of forty million drought victims in sixteen countries which declared disasters during the past year. We have obligated $37.3 million to provide food, water, transportation, health and medical care and shelter for the displaced. Still, hundreds die daily and millions more are at risk.

We look forward to the proposed supplemental funding which will be critical to millions of drought victims.

This was the year in which OFDA celebrated its twentieth anniversary. That gave us pause to look at where we have come from and what has been accomplished.

Between 1964 and 1984, OFDA:

- Responded to 773 disasters in 128 countries with expenditures of $211 million. In these disasters 2.3 million people died and 779 million were affected.

- Created and maintained five stockpiles of relief supplies in stategic points around the world. These stockpiles insure the immediate availability of frequently required relief items and reduce the cost of transportation to the American taxpayer.

Increased our budget for preparedness and early warning to annual obligations of $7.5 million. In doing so OFDA has been acknowledged by other donors and international organizations as the leader in the reduction of risk from natural disasters. In FY 1984 OFDA managed over 85 activities directed toward this goal.

Obviously OFDA's staff (ceilings for which rose from three in 1964 to sixteen in 1984) could not have accomplished all this had it not been for the excellent cooperation received from the rest of AID, other US Government agencies and the private sector, notably the voluntary agencies.

In our twenty-first year we are looking to the future while responding to immediate crises as they occur in Africa, Latin America, the Caribbean, Asia, the Pacific and the Middle East. We are requesting $25 million to achieve our current priorities:

1. Relief: We must constantly seek to improve our ability to respond effectively and efficiently to the requirements of disaster victims anywhere in the world. To accomplish this we must continuously improve the knowledge and skills of our staff and those who work hand in hand with us. On the basis of average years' requirements, we expect to obligate approximately $18 million in relief.

2. Preparedness: We will continue to assist in building the institutional capacity of disaster prone governments to solve their own problems, lest we face an increasing burden of relief requests as the current upward trend of disaster vulnerability

continues. OFDA has programmed $3 million for this effort.

3. Early Warning: The effectiveness of disaster forecasting and warning systems in saving lives is proven daily. Still, vast areas of the developing world are at significant risk because they have not yet benefited from the improved warning systems which U.S. technologies and techniques can provide. We will continue to promote vigorously the life-saving benefits of early warning technologies and expand their coverage to vulnerable regions of the world. $2 million is required for these activities.

4. Mitigation: Mitigation or risk reduction is aimed at reducing the vulnerability of people and property to natural hazards. Property damage caused by disasters can run into the millions of dollars and the long-term economic consequences can be devastating to developing countries. OFDA will continue to take the lead in developing new methods to reduce the hazard vulnerability of populations at risk and in encouraging disaster-prone communities to help themselves in this respect. The planned expenditures of $2 million in this program can save disaster victims many times that amount in development resources in addition to countless lives which may be saved.

5. Evaluation: In the emergency environment in which we work, perfection is an elusive goal. The best we can do is to learn from our mistakes as they are

revealed in self evaluations and external audits. Toward this end we conduct periodic evaluations of our various programs and maintain a log of lessons learned in previous disaster relief operations, and as always I invite constructive comments.

OFDA has been extremely fortunate in the support we have received through the years from the Congress. We understand the need to jealously guard the mandate of the Congress, as interpreted in Administration policy, to insure that we continue to enjoy the flexible and immediate response capability necessary to carry out that mandate. That mandate authorizes OFDA to provide assistance in disaster relief and rehabilitation, and preparedness, prediction and contingency planning for natural disasters abroad. We shall continue to attempt to carry out our prescribed function in a manner which will retain your support and serve the best interests of the U.S. Government and the American people.

PREPARED STATEMENT OF NEAL PEDEN

ASSISTANT ADMINISTRATOR
BUREAU FOR PRIVATE ENTERPRISE
AGENCY FOR INTERNATIONAL DEVELOPMENT

INTRODUCTION

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE, I APPRECIATE THE OPPORTUNITY TO PRESENT THIS STATEMENT ON BEHALF OF THE BUREAU FOR PRIVATE ENTERPRISE OF THE AGENCY FOR INTERNATIONAL DEVELOPMENT.

THE BUREAU FOR PRIVATE ENTERPRISE SERVES AS THE CATALYST

FOR THE ADMINISTRATION'S PRIVATE ENTERPRISE INITIATIVE IN FOREIGN AID. THIS INITIATIVE SEEKS TO MOBILIZE PRIVATE SECTOR SKILLS AND RESOURCES IN ORDER TO MEET BASIC HUMAN NEEDS AND OTHER DEVELOPMENT OBJECTIVES THROUGH SELF-SUSTAINING ECONOMIC GROWTH IN DEVELOPING COUNTRIES. IN THE PAST THREE AND A HALF YEARS, WE BELIEVE WE HAVE DEVELOPED A COST-EFFECTIVE AND INNOVATIVE PROGRAM TO CARRY OUT THIS RESPONSIBILITY.

MY STATEMENT WILL DESCRIBE THE PROGRAM IN TERMS OF ITS RATIONALE, STRATEGIES, AND MAJOR ACCOMPLISHMENTS; THE BUREAU'S USE AND DEVELOPMENT OF A.I.D.'S PRIVATE SECTOR REVOLVING FUND; ITS SECTORAL PRIORITIES; AND ITS FUTURE PLANS AS PROJECTED IN THE BUREAU'S FISCAL YEAR 1986 APPROPRIATION REQUEST.

RATIONALE FOR INITIATIVE

A.I.D.'S PRIVATE ENTERPRISE INITIATIVE IS BASED NOT ONLY ON THE HISTORIC RECORD OF ECONOMIC PROGRESS ACHIEVED THROUGH PRIVATE ENTERPRISE IN OUR OWN COUNTRY, BUT ALSO ON THE RECENT EXPERIENCE OF MANY DEVELOPING COUNTRIES. THIS EXPERIENCE DEMONSTRATES THAT DEVELOPING COUNTRIES THAT HAVE ENCOURAGED PRIVATE ENTERPRISE AND COMPETITIVE MARKETS HAVE, OVER THE PAST DECADE, ACHIEVED PER CAPITA GROWTH RATES AT MORE THAN TWICE THE LEVELS OF DEVELOPING COUNTRIES THAT HAVE RELIED ON ECONOMIES CONTROLLED AND DIRECTED BY GOVERNMENTS. INDEED, SOME NATIONS, NOTABLY TAIWAN AND KOREA, HAVE USED MARKET FORCES TO POWER A DRAMATIC TRANSITION FROM AID RECIPIENT TO AID GRADUATE. AND, AS THESE AND SIMILAR EXPERIENCES HAVE BECOME WIDELY KNOWN AND TESTED OVER A PERIOD OF TIME, SOME THIRD WORLD LEADERS HAVE BEEN LED TO REEXAMINE THEIR DEVELOPMENT STRATEGIES. THIS HAS BEEN ESPECIALLY TRUE IN THE CASE OF PUBLIC SECTOR-DOMINATED STRATEGIES THAT HAVE RESULTED IN POOR OVERALL ECONOMIC PERFORMANCE.

BUREAU FOR PRIVATE ENTERPRISE

IN ORDER TO CAPITALIZE ON THESE TRENDS, AND TO APPLY PROVEN METHODS OF ECONOMIC GROWTH TO THE FOREIGN ASSISTANCE PROGRAM, A.I.D. ADMINISTRATOR MCPHERSON ESTABLISHED THE BUREAU FOR PRIVATE ENTERPRISE IN JULY 1981. THE BUREAU WAS CHARGED WITH GIVING IMPETUS AND DIRECTION TO A BROAD AGENCY EFFORT, INVOLVING THE REGIONAL BUREAUS AND FIELD MISSIONS, TO STRENGTHEN INDIGENOUS PRIVATE SECTORS THROUGH A VARIETY OF MEANS INCLUDING IMPROVEMENT OF THE HOST COUNTRY ENVIRONMENT FOR BUSINESS AND PRIVATE INVESTMENT.

THE BUREAU CONSISTS OF FOUR SEPARATE ACTIVITIES. THE NEW PRIVATE SECTOR PROGRAMS ARE DEVELOPED AND MANAGED BY THREE UNITS, THE OFFICE OF PROJECT DEVELOPMENT (INCLUDING THE COOPERATIVE DEVELOPMENT ORGANIZATION PROGRAM), THE OFFICE OF PROGRAM REVIEW, AND THE OFFICE OF INVESTMENT. A FOURTH ACTIVITY, THE OFFICE OF HOUSING AND URBAN PROGRAMS, IS AN OLDER UNIT OF A.I.D. WHICH WAS TRANSFERRED WHEN THE BUREAU WAS ESTABLISHED. ITS ACTIVITIES MARK AN EARLY AND SUCCESSFUL AGENCY EFFORT TO MOBILIZE PRIVATE RESOURCES FOR DEVELOPMENT.

BUREAU STRATEGIES

IN PURSUING ITS OBJECTIVE OF STRENGTHENING THIRD WORLD PRIVATE ENTERPRISE, THE BUREAU HAS IDENTIFIED SIX "PRODUCT LINES", OR SERVICES, FOR ATTENTION. EACH SEEKS TO OVERCOME MAJOR CONSTRAINTS TO PRIVATE ENTERPRISE IN THE DEVELOPING WORLD. THESE ARE ALSO AREAS WHERE PRIVATE ENTERPRISE CAN BRING CONSIDERABLE EXPERTISE TO BEAR AND WHERE A.I.D. CAN MAKE A CONTRIBUTION AT RELATIVELY LITTLE COST IN TAX DOLLARS.

THE BUREAU'S PRODUCT LINES ARE:

(1) POLICY DIALOGUE AND CHANGE: SERVICES THAT REVIEW HOST COUNTRY POLICIES, LAWS AND REGULATIONS AFFECTING BUSINESS OPERATIONS AND INVESTMENT DECISIONS, AND SUGGEST NEEDED CHANGES;

(2) CAPITAL MARKET DEVELOPMENT: PROMOTION OF PRIVATE INSTITUTIONS THAT MOBILIZE CAPITAL FOR PRODUCTIVE INVESTMENTS, ESPECIALLY BY SMALL BUSINESSES, COOPERATIVES AND OTHER TARGETED BENEFICIARIES;

(3) COMMERCIALIZATION OF TECHNOLOGY: ENCOURAGEMENT OF THE TRANSFER AND ADAPTATION OF TECHNOLOGIES LEADING TO THE PRODUCTION AND MARKETING OF NEW AND IMPROVED PRODUCTS BY LDC BUSINESSES.

(4) INVESTMENT PROMOTION: ASSISTANCE TO LDCS TO PROMOTE NEW BUSINESS INVESTMENT -- INDIGENOUS AND FOREIGN -- THROUGH SPECIAL ANALYSES AND THE BUREAU'S FEASIBILITY STUDY COST-SHARING PROGRAM.

(5) NON-TRADITIONAL EXPORT PROMOTION: SERVICES AND FINANCING TO ENCOURAGE LOCAL VALUE-ADDED PRODUCTS THAT DIVERSIFY LDC ECONOMIES AND EARN FOREIGN EXCHANGE THROUGH EXPORTS; AND

(6) TRAINING/ENTREPRENEURSHIP: PROVISION OF MANAGERIAL AND TECHNICAL TRAINING RESPONSIVE TO BUSINESS NEEDS AND THE DEVELOPMENT OF ENTREPRENEURIAL SKILLS.

MAJOR ACCOMPLISHMENTS

IN THE PAST THREE AND A HALF YEARS, WE BELIEVE THAT

SIGNIFICANT PROGRESS HAS BEEN MADE IN CARRYING OUT THE BUREAU'S MANDATE.

ONE, THE BUREAU HAS DEVELOPED PROJECTS AND PROGRAMS THAT NOT ONLY PROVIDE SPECIFIC DEVELOPMENT BENEFITS ON THEIR OWN BUT MAY SERVE AS MODELS FOR REPLICATION OR EXPANSION BY A.I.D. FIELD MISSIONS. AN EXAMPLE IS SEEN IN KENYA, WHERE OUR JOINT $5 MILLION SMALL ENTERPRISE LOAN POOL WITH KENYA COMMERCIAL BANK HAS BEEN THE MODEL FOR THE MUCH LARGER, MISSION-DESIGNED $36 MILLION RURAL PRIVATE ENTERPRISE PROJECT.

TWO, WE HAVE INTRODUCED NEW LENDING INSTITUTIONS INTO THE A.I.D. PORTFOLIO, THUS ENHANCING THE AGENCY'S HISTORIC INSTITUTION-BUILDING CAPABILITIES. THIS INCLUDES ARRANGEMENTS WITH PRIVATE COMMERCIAL BANKS, LEASING COMPANIES, VENTURE CAPITAL FIRMS, AND OTHER ORGANIZATIONS THAT OPERATE ON MARKET CONCEPTS.

THREE, WE HAVE USED THESE INSTITUTIONS TO REACH SMALL AND MEDIUM-SIZED, MAINLY RURAL, PRIVATE ENTERPRISES. THIS IS A DYNAMIC FORCE FOR DEVELOPMENT WHICH IS OFTEN OVERLOOKED IN OFFICIAL DONOR PROGRAMS. THE IMPACT OF THESE ENTERPRISES ON JOB AND INCOME GENERATION CAN REVERBERATE THROUGHOUT LOCAL ECONOMIES. THE KENYA COMMERCIAL BANK PROJECT AND A SIMILAR ARRANGEMENT WITH SIAM COMMERCIAL BANK IN THAILAND, FOR EXAMPLE, ARE IN THE PROCESS OF GENERATING SOME 1500 NEW JOBS AND INCREASED INCOME IN RURAL AREAS OF THOSE COUNTRIES. BY SINGLING OUT THESE ENTERPRISES, WE PUT A.I.D.'S EFFORTS SQUARELY BEHIND AN INNOVATIVE, ENTREPRENEURIAL, LABOR-INTENSIVE AND COMPETITIVE SEGMENT OF THE THIRD WORLD PRIVATE SECTOR. OUR FOCUS IS NOT ON "CRONY CAPITALISM" -- BUSINESSES THAT ARE SHIELDED FROM MARKET FORCES AND COMPETITION AND ADD LITTLE TO THE EXPANSION AND DIVERSIFICATION OF THE ECONOMY.

FOUR, IN WORKING WITH PRIVATE INSTITUTIONS TO OPEN NEW CREDIT AVENUES FOR SMALLER BUSINESSES, WE ARE HELPING TO FILL GAPS IN THE INDIGENOUS CAPITAL MARKET STRUCTURE ON WHICH, IN LARGE PART, ACCELERATED ECONOMIC GROWTH DEPENDS.

FIVE, WE HAVE INSTITUTED MARKET, OR NEAR-MARKET INTEREST RATES IN OUR LENDING PROGRAM. THIS, BY REMOVING THE SUBSIDY ELEMENT, IS MORE APT TO RESULT IN SELF-SUFFICIENCY ON THE PART OF OUR BORROWERS AND, IN THE CASE OF INTERMEDIATE INSTITUTIONS, THE CLIENTS THEY SERVE.

AND, SIX, WE HAVE MADE SUBSTANTIAL AND ENCOURAGING PROGRESS IN SPREADING THE PRIVATE SECTOR PHILOSOPHY AND THE USE OF PRIVATE SECTOR METHODS THROUGHOUT THE AGENCY FOR INTERNATIONAL DEVELOPMENT.

DEVELOPMENT OF BUREAU PROJECTS THAT CAN BE REPLICATED IN OTHER COUNTRIES OR USED AS MODELS FOR LARGER PROJECTS HAS BEEN MENTIONED AS AN EXAMPLE OF THIS SIXTH POINT. HOWEVER, THE PRINCIPAL INSTRUMENT FOR MAKING THE INITIATIVE AGENCY-WIDE IS THE BUREAU'S MISSION SUPPORT PROGRAM. UNDER THIS, THE BUREAU ACTS AS TECHNICAL RESOURCE FOR A.I.D. FIELD MISSIONS IN THEIR PRIVATE ENTERPRISE ACTIVITIES. USING BOTH BUREAU STAFF AND OUTSIDE PRIVATE SECTOR EXPERTISE, WE HAVE RESPONDED TO MORE THAN 100 REQUESTS FOR ASSISTANCE FROM THE FIELD IN THE PAST TWO YEARS. IN ADDITION TO ASSISTING IN PROJECT AND PROGRAM DEVELOPMENT, SPECIALISTS HAVE BEEN ACTIVE IN ADVISING HOST GOVERNMENTS ON INVESTMENT CODE REVISIONS AND OTHER MATTERS RELATING TO THE CLIMATE FOR BUSINESS. AS SUCH, THEY PLAY AN IMPORTANT ROLE IN A.I.D. POLICY DIALOGUE EFFORTS. A NEW DIMENSION TO THE MISSION SUPPORT ROLE WAS ADDED IN FEBRUARY 1985 WITH THE ASSIGNMENT OF THE BUREAU'S FIRST REGIONAL REPRESENTATIVE TO BANGKOK. THIS OFFICER CARRIES OUT THE

SUPPORT ROLE ON AN ON-THE-SPOT BASIS FOR ASIA FIELD POSTS AND MONITORS BUREAU PROJECTS IN THE AREA.

ANOTHER METHOD OF DIFFUSING PRIVATE SECTOR AWARENESS IN A.I.D. IS THROUGH THE PRIVATE ENTERPRISE COUNCIL, INITIATED BY OUR BUREAU. THIS BRINGS TOGETHER PRIVATE SECTOR OFFICERS FROM ALL BUREAUS EVERY MONTH TO DISCUSS PROJECTS AND STRATEGIES.

FINALLY, IN DECEMBER 1984, THE BUREAU, WORKING WITH THE A.I.D. TRAINING DIVISION, PUT ON AN INTENSIVE, FIRST-EVER TRAINING COURSE FOR A.I.D. OFFICERS WITHOUT BUSINESS BACKGROUNDS WHO HAVE COLLATERAL PRIVATE SECTOR RESPONSIBILITIES. ANOTHER SESSION IS PLANNED IN MAY. THE COURSE SHOWS HOW BUSINESS SKILLS CAN BE APPLIED TO REAL-LIFE DEVELOPMENT SITUATIONS AND DEALS WITH BROAD POLICY QUESTIONS AS WELL. WE EXPECT IT TO BECOME A REGULAR COMPONENT OF THE A.I.D. TRAINING PROGRAM. PARTICIPANTS IN THE DECEMBER SESSION UNIFORMLY PRAISED THE COURSE AND FELT IT GAVE THEM VALUABLE NEW TOOLS WITH WHICH TO MEET DEVELOPMENT GOALS IN THE FIELD.

PRIVATE SECTOR REVOLVING FUND

MAJOR BUREAU LOANS ARE CHANNELED THROUGH THE PRIVATE SECTOR REVOLVING FUND. THIS MECHANISM WAS ESTABLISHED BY CONGRESS, WITH THE HELP AND SUPPORT OF THIS SUBCOMMITTEE, IN ORDER TO ASSURE A BUSINESSLIKE, ACCOUNTABLE INVESTMENT PROGRAM AND, ULTIMATELY, TO PUT BUREAU LOANS ON A SELF-REPLENISHING BASIS. A LOAN REVIEW BOARD, COMPOSED OF SIX PRIVATE SECTOR INVESTMENT AND BANKING EXECUTIVES, EXAMINES EACH PROPOSAL FOR FINANCIAL VIABILITY AND CONFORMITY WITH CREDIT STANDARDS BEFORE IT IS APPROVED.

A MAJOR FEATURE OF THESE INVESTMENTS IS THE LEVERAGING ASPECT BY WHICH A.I.D. FUNDS ARE COMPLEMENTED BY PRIVATE RESOURCES. THIS OCCURS WHEN OUR FUNDS ARE MATCHED BY INTERMEDIATE FINANCIAL INSTITUTIONS (IFIS) TO CREATE LOAN POOLS FOR TARGETED BORROWERS OR, IN THE CASE OF DIRECT LOANS, ARE THE CATALYST FOR BRINGING TOGETHER OTHER INVESTORS. ON AVERAGE, REVOLVING FUND PROJECTS HAVE TRIGGERED $2.50 TOTAL PROJECT DOLLARS FOR EACH A.I.D. DOLLAR. HOWEVER, THIS DOES NOT TAKE INTO ACCOUNT THE INTRODUCTION OF ADDITIONAL PRIVATE FUNDS FROM A MULTITUDE OF BORROWERS FROM A.I.D./IFI LOAN POOLS WHO PUT THEIR OWN MONEY INTO THE PROJECTS BEING FINANCED. MOST BUREAU INVESTMENTS GO TO IFIS. THEREFORE, THE LEVERAGING EQUATION FOR THE REVOLVING FUND IS CLOSER TO 1 OF 4 OR 5, RATHER THAN 1 OF 2.5.

THE FIRST REVOLVING FUND LOAN WAS APPROVED IN APRIL 1984. BY THE END OF FISCAL YEAR 1984 ON SEPTEMBER 30, EIGHT LOANS TOTALING $14,500,000 HAD BEEN APPROVED. FIVE LOANS HAD GRANT COMPONENTS TOTALING $970,000 FOR TECHNICAL ASSISTANCE IN PROVIDING BUSINESS ADVISORY SERVICES TO IFI CLIENTS AND FOR OTHER PURPOSES. WE HOPE TO APPROVE EIGHT ADDITIONAL LOANS THIS YEAR. FOR FURTHER DETAILS ON REVOLVING FUND ACTIVITIES, I REFER YOU TO THE ADMINISTRATOR'S ANNUAL REPORT ON THE FUND, SENT TO CONGRESS AT THE END OF CALENDAR 1984, WHICH ACCOMPANIES THIS STATEMENT.

SECTORAL PRIORITIES

AS OUR OVERALL PROGRAM HAS EVOLVED, WE HAVE TARGETED CERTAIN SECTORS FOR PARTICULAR BUREAU ATTENTION. THESE ARE: AGRIBUSINESS AND OTHER SMALL RURAL ENTERPRISES; HEALTH; AND COMMERCIALIZATION OF TECHNOLOGY -- THAT IS, IDENTIFICATION AND DEVELOPMENT OF TECHNOLOGIES THAT CAN BE PRODUCED AND MARKETED

IN DEVELOPING COUNTRIES. IMPLEMENTATION OF THE LATTER TWO, HEALTH AND COMMERCIALIZATION OF TECHNOLOGY, IS IN THE EARLY STAGES AND WILL RECEIVE MORE ATTENTION IN THE NEAR FUTURE.

FY 1986 REQUEST

THE BUREAU FOR PRIVATE ENTERPRISE IS REQUESTING $40.26 MILLION IN FISCAL YEAR 1986. THIS CONSISTS OF $33.26 MILLION FOR ITS NEW PRIVATE ENTERPRISE ACTIVITIES AND $7.0 MILLION FOR THE OFFICE OF HOUSING AND URBAN PROGRAMS.

THE REQUESTS BREAK DOWN AS FOLLOWS:

PRIVATE SECTOR REVOLVING FUND AND SUPPORTING GRANTS ($17.0 MILLION IN LOANS; $760,000 IN GRANTS) -- REVOLVING FUND INVESTMENTS WILL PLACE MAJOR EMPHASIS ON THREE PRIORITIES:

(1) CAPITALIZATION OF INTERMEDIATE FINANCIAL INSTITUTIONS (IFIS) FOR ON-LENDING AND SERVICES TO MICRO, SMALL AND MEDIUM-SIZED ENTERPRISES. SMALL ENTREPRENEURS HAVE HIGH IMPACT ON JOB CREATION AND OUTREACH TO THE POOR. IN FY 86 WE HOPE TO USE COOPERATIVES IN AT LEAST ONE PROJECT TO REACH THIS TARGET BUSINESS GROUP, FOCUSING ON LATIN AMERICA;

(2) ACCELERATION OF THE BUREAU'S COMMERCIALIZATION OF TECHNOLOGY PROGRAM. CREATION OF SMALL VENTURE FUNDS FOR TECHNOLOGY DEVELOPMENT LEADING TO PRODUCTION FOR LDC MARKETS IS ONE OBJECTIVE. OPPORTUNITIES FOR THIS IN THAILAND AND INDIA AND PERHAPS OTHER COUNTRIES APPEAR GOOD. AMERICAN ENTREPRENEURS ARE EXPECTED TO PARTICIPATE IN SOME PROJECTS. A PRIVATE SECTOR TECHNOLOGY REVIEW BOARD, SIMILAR TO THE EXISTING LOAN REVIEW BOARD, WILL BE FORMED TO SCREEN PROPOSALS.

(3) FURTHER DEVELOPMENT OF THE "SATELLITE FARM" CONCEPT. UNDER THIS, A NUCLEUS, OR CORE, AGRIBUSINESS PROVIDES EXTENSION SERVICES TO SMALL, INDEPENDENT FARMER/SUPPLIERS IN THE SURROUNDING AREA FROM WHOM THE BUSINESS BUYS THE RAW PRODUCTS. THIS PROVIDES A SYNERGISM THAT CAN LEAD TO SIGNIFICANT INCREASES IN AGRICULTURAL PRODUCTION AND FARMER INCOME. THE IMPACT ON FOOD SELF-SUFFICIENCY IN THE LDCS COULD BE SUBSTANTIAL. OUR CAPITALIZATION OF A MODERN MEAT PROCESSING FACILITY IN THAILAND, AND EMPHASIS ON SATELLITE-FARM PROJECTS FOR VENTURE CAPITAL FUNDING IN THE CARIBBEAN, BOTH CONTAINED IN 1984 REVOLVING FUND PROJECTS, WERE EARLY STEPS IN THIS DIRECTION. A.I.D. FIELD MISSIONS HAVE RESPONDED TO THIS CONCEPT WITH CONSIDERABLE INTEREST. THEY ARE IN THE PROCESS OF IDENTIFYING OPPORTUNITIES THROUGHOUT THE DEVELOPING WORLD.

"PRODUCT LINE" DEVELOPMENT ($1.0 MILLION) -- BUREAU POLICY DIALOGUE EFFORTS WILL INCLUDE ASSISTANCE IN THE PRIVATIZATION OF STATE-OWNED ENTERPRISES (PARASTATALS). EXPERIENCE IN COSTA RICA, PERU, THE PHILIPPINES, AND MALAWI WILL HELP THE BUREAU DEVELOP STRATEGIES TO HELP A.I.D. MISSIONS RESPOND TO HOST GOVERNMENT REQUESTS FOR ADVICE. CAPITAL MARKET DEVELOPMENT WILL INVOLVE STRENGTHENING OF PRIVATE LDC INSTITUTIONS TO MOBILIZE LOCAL AND INTERNATIONAL CAPITAL. A STRATEGY FOR SUPPORTING LDC INVESTMENT PROMOTION IS IN PROCESS, ASSISTED BY EVALUATIONS OF BUREAU EFFORTS MADE TO DATE. COMMERCIALIZATION OF TECHNOLOGY WILL RECEIVE GRANT SUPPORT TO IDENTIFY OPPORTUNITIES FOR POSSIBLE PRIVATE OR BUREAU LOAN INVESTMENTS. PROMOTION OF NON-TRADITIONAL EXPORTS WILL REQUIRE NO NEW FUNDING. WE WILL CONCENTRATE INSTEAD ON THE "ROLLOUT" OF EXISTING EFFORTS, SUCH AS IMPLEMENTATION IN THE FREE ZONE

AND TRADING COMPANY AREAS. TRAINING/ ENTREPRENEURSHIP DEVELOPMENT WILL MAINLY INVOLVE SUPPORT FOR SELECTED CURRENT FIELD PROGRAMS.

MISSION SUPPORT ($2.0 MILLION) -- THIS WILL EMPHASIZE THE BUREAU'S ROLE AS A TECHNICAL RESOURCE FOR A.I.D. MISSIONS. AMONG FY 86 ACTIVITIES WILL BE ASSISTANCE TO SHAPE AND IMPLEMENT AN INTEGRATED STRATEGY FOR PRIVATE ENTERPRISE DEVELOPMENT IN SELECTED COUNTRIES. KENYA AND THAILAND ARE TARGET AREAS.

COOPERATIVES AND SMALL BUSINESS DEVELOPMENT ($6.0 MILLION) -- TRANSFER OF THE COOPERATIVE DEVELOPMENT ORGANIZATION ACTIVITIES FROM A.I.D.'S BUREAU FOR FOOD FOR PEACE AND VOLUNTARY ASSISTANCE TO THE BUREAU FOR PRIVATE ENTERPRISE TOOK PLACE IN FY 84. THIS INVOLVES CORE GRANTS TO SIX U.S. COOPERATIVE ORGANIZATIONS. UNDER OUR BUREAU, THE ACTIVITY WILL FOCUS MORE ON SUPPORT FOR SMALL LDC BUSINESSES, INCLUDING MICRO BUSINESSES. THIS INCLUDES DEVELOPMENT OF TRADE PROGRAMS AND CREDIT AND FINANCIAL SYSTEMS FOR THESE TARGET BENEFICIARIES.

OTHER GRANTS ($6.5 MILLION) -- BUREAU SUPPORT CONTINUES FOR THE INTERNATIONAL EXECUTIVE SERVICE CORPS (I.E.S.C.) AND THE JOINT AGRICULTURAL CONSULTATIVE CORPORATION (JAC CORP), AT $6.0 MILLION AND $500,000, RESPECTIVELY. AS WITH THE COOPERATIVE ORGANIZATIONS, THE BUREAU ENCOURAGES THESE TWO PRIVATE ORGANIZATIONS TO MARKET THEIR TECHNOLOGY AND MANAGERIAL ASSISTANCE SERVICES FOR LDC ENTREPRENEURS DIRECTLY TO A.I.D. MISSIONS.

THE BUREAU IS IN THE PROCESS OF COMPLETING SOME MAJOR EXISTING GRANT COMMITMENTS AND WILL UNDERTAKE ONLY NEW GRANT PROJECTS THAT ARE IN DIRECT SUPPORT OF MISSION PROGRAMS OR ARE

COMPONENTS OF BUREAU INVESTMENTS.

EVALUATION -- EVALUATION OF SELECTED PROJECTS IN THE BUREAU PORTFOLIO PLAYS A MAJOR ROLE IN DEVELOPMENT OF OUR STRATEGY. BECAUSE OF THE EXPERIMENTAL NATURE OF THE BUREAU'S PROGRAM, EVALUATIONS ARE ESSENTIAL NOT ONLY TO IMPROVE FUTURE BUREAU PROGRAMMING BUT TO ENCOURAGE THE REPLICATION BY FIELD MISSIONS OF BUREAU PROJECTS THAT HAVE BEEN TESTED AND REFINED. IN FY 86, WE WILL ACCELERATE THE PACE OF THE EVALUATION PROCESS TO PROVIDE A SHARPER FOCUS TO OUR STRATEGY.

OFFICE OF HOUSING AND URBAN PROGRAMS

THE BUREAU REQUESTS $7.0 MILLION FOR THIS OFFICE TO MEET ITS EXPANDED URBAN DEVELOPMENT RESPONSIBILITIES.

THE BUDGET REQUEST FOR THE OFFICE OF HOUSING AND URBAN PROGRAMS BREAKS DOWN AS FOLLOWS: HOUSING THE URBAN POOR ($2.0 MILLION); URBAN DEVELOPMENT SUPPORT SERVICES ($2.0 MILLION); PROJECT DEVELOPMENT AND SUPPORT ($1.0 MILLION); SHELTER AND URBAN DEVELOPMENT TRAINING ($1.5 MILLION); AND DEVELOPMENT OF SECONDARY TOWNS ($500,000).

MR. CHAIRMAN, THE BUREAU FOR PRIVATE ENTERPRISE, OPERATING WITH A SMALL STAFF AND BUDGET, HAS, WE BELIEVE, DEVELOPED AN INNOVATIVE, COST-EFFICIENT PROGRAM THAT HAS ENERGIZED AN AGENCY-WIDE EFFORT NOW BEGINNING TO SHOW MEASURABLE RESULTS. WE LOOK FORWARD TO WORKING IN CLOSE COOPERATION WITH THIS SUBCOMMITTEE AND THE CONGRESS AS A WHOLE IN ACCELERATING THE MOMENTUM OF THAT EFFORT. TOGETHER, WE CAN ASSURE THAT THE ADMINISTRATION'S PRIVATE SECTOR INITIATIVE WILL CONTINUE TO BE AN EFFECTIVE AND INTEGRAL COMPONENT OF THE FOREIGN ASSISTANCE PROGRAM.

ANNUAL REPORT

PRIVATE SECTOR REVOLVING FUND
AGENCY FOR INTERNATIONAL DEVELOPMENT

A. AID'S PRIVATE SECTOR INITIATIVE

1. Reasons for a New Approach. This Administration concluded early in its first term that private enterprise could exercise an important role in developing the economies of Third World countries. It was decided that a greater effort should be made through the United States foreign aid program to strengthen local private sectors, as mandated under Section 601 of the Foreign Assistance Act, in a manner that was fully consistent with the New Directions legislation.

A renewed emphasis on private enterprise is appropriate at this time for a number of reasons.

First, evidence is persuasive that those developing nations that have relied on market forces for growth have, by and large, registered impressive economic gains. Conversely, many of those choosing to manage and direct their economies primarily through the public sector have fared less well. Elements common to the success stories include these: the right policy climate to mobilize private capital and to direct allocation of capital efficiently and equitably; a financial structure to help match sources of capital with productive uses of capital; and the development of managerial and technical skills to ensure that the invested capital base appreciates in value. Experience shows that these elements not only spur economic progress; they also build a resiliency into economies so the nations affected can better weather the impact of world recession and other factors beyond their control.

Second, recent economic problems in the developing world -- mounting debt service burdens and reduced demand

and falling prices for traditional exports -- have led Third World leaders increasingly to reexamine their development philosophies and to take corrective action. This often has meant a shifting away from pervasive government control of these economies toward a greater reliance on the private sector.

Third, the decline, in real terms, of official aid levels from the United States and other donor countries has confronted both developed and developing nations with the challenge of enlisting other resources and skills, including those of the private sector, to keep the development process on track.

The Agency for International Development believes that the market economy, including the profit motive, can be a strong self-sustaining engine for growth. With carefully selected, limited assistance that complements appropriate interventions by Third World governments, the private sector can achieve impressive results that yield balanced economic development. This is the philosophy behind AID's private sector initiative.

2. Relationship to Four Cornerstones of AID Strategy. The private sector initiative constitutes one of four cornerstones of current AID strategy. The other three are policy dialogue, institution building, and technology transfer. Private sector projects and programs cut across, and reinforce, the other three, thus serving as mechanisms for carrying out activities related to those cornerstones. Thus the initiative is not focused exclusively on any one sector or program objective. Rather, it is a means of achieving development results across a broad range of sectors and objectives.

AID's Bureau for Private Enterprise therefore has attempted to utilize a private sector approach in achieving AID development goals in several areas, notably agricultural development, export promotion, and general expansion of rural small enterprises. Projects financed include elements of policy dialogue with the host government (changes in the regulatory environment; private sector access to local capital markets); institution building (the establishment or strengthening of a business; advisory services to small businesses; new financing techniques); and technology transfer (health products for poor people; use of coffee waste for animal feed; outreach to small farmers). As such, the private sector initiative will permeate not only revolving fund investments, but also projects throughout AID.

3. Multiplication of Limited AID Resources. Revolving fund loans are made at near-market interest rates. This is consistent with the requirements of Section 108(c) of the Foreign Assistance Act as well as with Bureau for Private Enterprise policy. AID believes that those Third World businesses and institutions best able to contribute to development objectives are those that can stand competitively in the marketplace, without subsidy. We intend to strengthen such entities on a non-subsidized basis and therefore our loans to for-profit enterprises and the intermediate institutions that serve them are on near-market terms. This also strengthens the revolving fund itself by providing additional resources.

Revolving fund loans require substantial financial participation by the borrower and others, thus multiplying the impact of AID dollars. We require this as evidence of the financial viability of the project as well as of the borrower's commitment. Our leveraging or catalyst ratio in fiscal year 1984 revolving fund loans was 1 of 2.5, the first number representing AID's contribution and the second the total investment from all sources. While this is a good beginning, we hope to raise the average, subject to the circumstances surrounding the new projects.

B. ESTABLISHMENT OF REVOLVING FUND

1. Rationale. In order to institutionalize its private sector investment program, the Agency for International Development requested the 98th Congress to authorize a private sector revolving fund. The rationale for this mechanism was, and remains:

-- to ensure accountability of the program by joining responsibility and performance; the program's financial integrity and level of activity depend on reflows from viable projects;

-- to encourage participation in the program by United States and developing country private sectors and international entities (important elements in leveraging AID funds) through a businesslike procedure which demonstrates "bottom line" results;

-- to permit growth in the program without the expenditure of additional tax dollars (through recovery of principal, interest and fees and investment of these proceeds in United States obligations); and

-- to ensure flexibility in the program by freeing disbursement schedules from fiscal year appropriations limitations, thus providing greater leeway for AID to innovate and seize investment opportunities.

2. Authorizing Legislation. Establishment of the Private Sector Revolving Fund was authorized by the International Security and Development Assistance Authorizations Act of 1983 (sec. 101(b)(2) of Further Continuing Appropriations, 1984, Public Law 98-151), signed on November 14, 1983, and incorporated as Section 108 of the Foreign Assistance Act of 1961, as amended.

3. Summary of Legislation. Finding that private enterprise development "is a vital factor in the stable growth of developing countries", Section 108 declares it to be in the best interests of the United States "to assist the development of the private sector in developing countries and to engage the United States private sector in that process." To promote such development, the President is authorized to establish a revolving fund account in the Treasury.

Section 108 specifies that the revolving fund may support only activities that:

-- are consistent with United States development assistance policies and the development priorities of host countries;

-- are the types of activities for which assistance is authorized under AID's functional accounts (Sections 103 through 106 of the Foreign Assistance Act of 1961, as amended);

-- will have a demonstration effect (that is, can be replicated by AID field missions, financial institutions and others);

-- will be innovative;

-- are financially viable;

-- will maximize the development impact appropriate to the country involved, particularly in employment and the use of appropriate technology; and

-- are primarily directed to making available to small business enterprises and cooperatives necessary support and services not otherwise available.

The legislation sets forth specific requirements relating to projects supported by the fund. These provide that not more than $3,000,000 may support any one project; that a "substantial portion" of financial support for these projects must come from host country sources; that no more than 20 percent of revolving fund assets may support projects in any one country; that loans be made primarily to intermediary institutions serving the private sector; and that they be made at or near the interest rate "otherwise available to the recipient."

4. Funding. The legislation authorized appropriation of up to $20,000,000 of Chapter 1, Part I funds for the revolving fund in fiscal year 1984. This amount was approved in the continuing resolution for that fiscal year. The continuing resolution for fiscal year 1985 (P.L. 98-473) approved the use of an additional $20,000,000 for the revolving fund for the current fiscal year. Reflows, that is, payments on loan principal and

interest and income from fees that may be imposed by AID, will also be deposited in the fund account. The legislation states that "all funds in such account may be invested in obligations of the United States." Fund assets exceeding $100,000,000 shall be remitted to the Treasury; other amounts may be remitted at AID's option.

5. Annual Report. The requirement for the annual report presented herewith is stated in Section 108(h), as follows:

> "Not later than December 31 of each year, the President shall submit a comprehensive report which details all projects funded under this section during the previous fiscal year, all reflows to the revolving fund account, a status report on all projects currently contained in the fund's portfolio. Such reports shall include, but not be limited to, information regarding numbers and kinds of beneficiaries reached, amounts and kinds of benefits provided by the funded projects to targeted populations, and a justification for projects within the context of the goals and objectives of the United States development assistance program."

C. PROCEDURES AND MANAGEMENT

To obtain a fresh view in its objective of providing businesslike and financially prudent operation of the revolving fund portfolio, the Bureau for Private Enterprise engaged Price Waterhouse to prepare a set of operating guidelines, or manual. This was completed in August 1984. Many of its recommendations are in the process of being incorporated in Bureau procedures.

Specific procedural and management issues that arose in FY 1984 include the following five items:

1. Development and Administration of Projects. The Price Waterhouse recommendations serve to systematize present Bureau practices in five categories -- identification and screening of projects; their analysis and design; their review and approval; monitoring and administration; and project evaluation. Clear lines of responsibility are drawn between the Bureau's Office of Policy and Program Review, which is responsible for overall program and budget functions, and the Office of Investment, charged with the development of specific investment projects.

The manual reinforces and fleshes out broad guidelines for the fund which were detailed in a memorandum from the Assistant Administrator, Bureau for Private Enterprise, to the Administrator of AID on November 16, 1983. Among other things, the memorandum states that revolving fund projects will incur risks that are limited and diversified, will involve entities with satisfactory financial structures and prudent managerial capabilities, and will offer financing on terms and conditions generally consistent with commercial practice in the host country "for which no exact commercial counterpart exists locally." The memo states further that funds from other AID bureaus and field missions and other institutions may be managed by the fund.

2. Loan Review Board. As part of its project review process, the Bureau for Private Enterprise in July 1983 established a Loan Review Board composed of private financial executives who are knowledgeable in all types of project financing and the associated risks in developing countries. The board reviews potential investments supported by the revolving fund as to their financial viability, conformity to investment credit standards, and the packaging of investment proposals and transactions. The board has reviewed all eight loans made from the revolving fund. This innovative use of private sector expertise will continue. The board's recommendations, though not binding on the Bureau, have been of significant assistance in the development of sound, creditworthy investments.

3. Overall Management. The Bureau for Private Enterprise has management responsibility for the revolving fund, under the overall direction of the AID Administrator. The Bureau also consults with other AID bureaus and field missions as appropriate.

The Assistant Administrator, Bureau for Private Enterprise, has overall responsibility for the fund's operations. The Deputy Assistant Administrator serves as managing director of the fund and oversees portfolio priorities, investment approvals and financial operations, including investment of fund assets in interest-bearing

U.S. obligations, in coordination with the Loan Management Division, Office of Financial Management. The Office of Investment, Bureau for Private Enterprise, handles day-to-day operation of the revolving fund.

4. Investment of Revolving Fund Assets. Section 108(b) allows monies appropriated for the revolving fund to be invested in obligations of the United States. However, Treasury Department policy prohibits the investment of appropriated funds. Because interest payments must be generated by additional Treasury borrowing, such investment has the effect of increasing the resources available to a program by adding to the national debt. As a result, the revolving fund had no investments in U.S. obligations in fiscal year 1984 and earned no interest thereon.

5. Evaluations. During 1984 the Bureau for Private Enterprise initiated a continuing program to obtain objective analyses of ongoing activities, both loan- and grant-funded. Illustratively, a team of AID officers and outside contractors made a month-long evaluation of two of the Bureau's early, non-revolving fund investments, those with Siam Commercial Bank and Kenya Commercial Bank, which involve on-lending to small and medium-scale rural enterprises. The team found that both projects have opened up opportunities for term lending with development impact to this target group via the indigenous private commercial banking system and recommended ways to further strengthen the projects. Similar evaluations of revolving fund projects will be made as each reaches a sufficiently mature stage for assessment.

D. REVOLVING FUND PORTFOLIO

Summary. The loan agreement for the first project financed from the revolving fund account was signed by Administrator McPherson on April 10, 1984. In all, eight loans, totaling $14,500,000, representing seven projects (Ecuador Capital Market Access Project involves two separate loans) have been approved. Five projects have grant components, totaling $970,000. These AID funds, combined with funding from other sources, totaled some $37,400,000, producing an AID leveraging ratio of 1 of 2.5.[1/] Six revolving fund investments were through intermediate financial institutions (IFIs) and two loan/grant interventions were made directly to indigenous private enterprises. Because of the early stage of this portfolio, no disbursements have yet been made; therefore no reflows of principal or interest had been deposited as of the presentation of this report in December 1984.

These projects are consistent with revolving fund criteria as stated in Section 108. They generally are innovative, have a demonstration potential, are financially viable, have the potential to increase host-country employment and promote the use of appropriate technology, and primarily support small business (and, in the case of Thailand Livestock Meat Processing and Caribbean Basin Corporation, small farmers) with services not otherwise generally available.

It should be noted that the revolving fund portfolio, requiring long negotiations and extensive travel, was developed by a limited staff of four investment officers.

Descriptions of the revolving fund projects and their expected development benefits follow:

1/ The ratio is potentially greater in the case of Intermediate Financial Institutions (IFIs). This is because the AID loan attracts not only the IFI's funds when the investment pool is set up but, later, attracts those project funds that enterprises borrowing from the pool put up themselves. These amounts cannot be predicted in advance; however, a rough estimate is that this on-lending stage increases a leveraging ratio of, say, 1 of 2, to 1 of 4 or 5.

HEALTHLINK LOAN POOL (PATH)
Thailand and Indonesia
Project Nos.: 940-0002.31(Thailand)
940-0002.32(Indonesia)
AUTH. DATE: August 17, 1984
Loan No.: 498-S-002, dated August 22, 1984
Type: Intermediate Financial Institution

Description

The central purpose of this project is to increase the availability of certain low-cost health products to lower-income people in Thailand and Indonesia. AID will make both a $2,500,000 loan and a a $750,000 grant to Program for Appropriate Technology in Health (PATH), a Seattle-based U.S. non-profit organization. Unlike other revolving fund loans that involve an incidental grant component, the grant in this project is a primary moving factor. Using grant funds, PATH will contact U.S. health product companies to determine what products have been developed by those companies that might be marketed in Thailand and Indonesia in a way that would address the basic health needs of lower-income people.

After identifying such health products, PATH will approach private indigenously owned health companies in Thailand and Indonesia to propose that they consider producing and marketing the health products identified by PATH. PATH will be able to offer technical assistance to those private Thai and Indonesian health companies in negotiating licensing agreements with the U.S. health companies and in producing and marketing the products. PATH may work with only those health companies that, in PATH's judgment, are financially and technically capable of marketing the products in a way that makes them accessible to lower-income people. The health companies must also be willing to commit enough of their own resources to market the products in an appropriate manner.

The $2,500,000 Revolving Fund loan will complement PATH's efforts to interest Thai and Indonesian health companies by permitting PATH to assist the companies in obtaining bank financing. AID will disburse the loan proceeds into PATH's account in a bank selected by PATH but approved by AID. The funds in that account will be used to secure standby letters of credit (similar to bank guaranties) issued by PATH's bank guarantying a portion of a local currency loan by a Thai or Indonesian bank to the participating Thai or Indonesian health companies. The availability of these local currency loan guaranties will increase the local health companies' access to financing for their new PATH-identified product lines without causing the health companies to incur unnecessary long-term U.S. dollar debt with its attendant devaluation risks. (Several revolving fund loans during fiscal year 1984 were structured in a similar manner with AID's U.S. dollar loan proceeds being held in an offshore account and used as collateral to mobilize local currency loans. This experimental loan structure was employed because of the chronic devaluation many foreign currencies have been experiencing with respect to the U.S. dollar and many borrowers' understandable reluctance to incur any unnecessary foreign exchange risk. The loan structure is termed, in the remaining project descriptions, the "collateral account" structure.)

Development Impact

The direct development impact of this project will be an increase in the availability of low-cost health products that meet the basic health needs of lower-income persons in Thailand and Indonesia. Additionally, the project will result in the increase in the contacts between Thai and Indonesian health companies and their counterparts in the United States. The Thai and Indonesian health companies will become more involved in producing and marketing products, on a strictly for-profit basis, to persons in the lower end of the cash economy. This use of the private sector as a mechanism to deliver health products to low-income people is highly innovative and, if successful, readily replicable in other developing countries.

THAILAND LIVESTOCK MEAT PROCESSING
Thailand
Project No.: 940-0002.24
AUTH. DATE: April 23, 1984, as amended August 3, 1984
Loan No.: 493-S-040, dated September 9, 1984
Type: Direct loan to enterprise

Description

The purpose of AID's participation in this project is to assist small and medium-sized pig and cattle farmers in Thailand. AID will lend $2,500,000 to a newly-formed company, owned jointly by Thai and Philippine nationals, to help finance the construction of Thailand's first modern privately owned meat processing plant. The plant complex will consist of a slaughterhouse and processing, canning and cold storage facilities. It will produce top-grade meat products under the brand name of a large U.S. meat processing company with which the borrower will enter into a licensing agreement.

The borrower will obtain a large portion of the necessary livestock through a "nucleus estate and satellite farming" operation in Thailand. The satellite farmers will be the small and medium-sized livestock producers who are the principal intended beneficiaries of this project. To assure that the livestock supplied by the satellite farmers meets the quality standards necessary to produce top-grade processed meats, the borrower will furnish extensive technical assistance to the participating farmers, teaching them modern animal husbandry practices. AID will provide $50,000 in grant funds to assist in establishment of the satellite farming and farmer outreach system.

The concept for the meat processing facility came solely from the Philippine and Thai participants, without any AID involvement. Through AID's partial financing, however, the borrower has committed itself to the farmer technical assistance program and to obtaining a substantial portion of its raw materials through the satellite farming program.

Development Impact

This project is expected to benefit up to 2,000 small and medium-sized livestock producers in Thailand through providing technical assistance in animal husbandry practices and assuring a marketing outlet. The project will also entail the transfer into Thailand of modern meat-processing techniques. The borrower plans to export a portion of the processed meats to Asian markets, resulting in the generation of substantial amounts of foreign exchange. Finally, the project accords with the development strategy of the Government of Thailand to strengthen the Thai private sector. The meat processing industry has been dominated almost entirely by government-owned slaughterhouses, and the current project represents a significant step toward privatization of that industry.

ECUADOR CAPITAL MARKET ACCESS
Ecuador
Project No.: 940-0002.36
AUTH. DATE: August 27, 1984
Loan Nos.: 518-S-059, dated September 17, 1984
518-S-060, dated September 27, 1984
Type: Intermediate Financial Institutions

Description

This project is intended to benefit small and medium-sized Ecuadorian companies engaged in agriculture and agribusiness by increasing their access to the trade finance necessary to import agricultural equipment and raw materials. The project consists of two parallel $1.4 million loans, one to an Ecuadorian financial institution in Quito and another in Guayaquil. These financial institutions, called "financieras", have a function in Ecuador similar to that of investment or development banks in the United States or Western Europe.

When an agribusiness in Ecuador wishes to import such items as seed or farm equipment from the United States, it typically must obtain a letter of credit from its bank in Ecuador. Before the U.S. exporter is willing to ship the goods, the letter of credit must generally be confirmed by a U.S. bank to which the exporter will look for payment. U.S. banks are not now willing to confirm letters of credit issued by Ecuadorian financial institutions, and therefore small Ecuadorian agribusinesses have very little access to the trade financing necessary to import needed equipment and commodities.

The AID loan proceeds will be deposited into the borrowers' accounts in U.S. banks where they will serve as collateral giving the U.S. banks the security needed to confirm letters of credit. In other words, this loan employs the "collateral account" mechanism described more fully in connection with the Healthlink Loan Pool (PATH) project.

The project also involves a possible second phase designed to increase the amount of long-term local currency credit available to Ecuadorian agribusiness. During this second phase, the funds in the borrowers' accounts may be used as collateral for standby letters of credit guarantying a portion of a development bond offering by the two financieras. This development bond offering will allow the financieras to raise long-term local currency funds from Ecuadorian investors which will in turn allow the financieras to make term local currency loans to the same beneficiary group of small and medium-sized Ecuadorian agribusinesses.

There is currently no market for development bonds issued by private financierias because the market is dominated by bonds issued by the Government of Ecuador. Government-issued bonds are tax exempt in Ecuador, but bonds issued by private financieras are not. This asymmetry in the Ecuadorian bond market blocks access to long-term local currency financing by financieras and consequently precludes the financieras from providing much needed long-term local currency credit to small and medium-sized agribusinesses. Phase two of the project will come into effect only if there is a reasonable prospect that the partially guarantied private development bonds will be marketable. Consequently, elimination of the unequal tax treatment of public and private bonds will probably be a prerequisite to the second phase of the project.

Development Impact

Target beneficiaries for this project are privately owned small and medium-sized companies engaged in agriculture or agribusiness in Ecuador outside the urban areas of Guayaquil and Quito. These companies must be majority-owned by Ecuadorian nationals. Increased import and long-term local currency credit to the small agribusiness sector will generate substantial employment as well as increase food production for both domestic consumption and export with the resultant foreign exchange generation and savings.

CARIBBEAN BASIN CORPORATION
Caribbean-wide and Latin America
Project No.: 940-0002..41
AUTH. DATE: September 28, 1984
Loan No.: 598-S-006, dated September 28, 1984
Type: Intermediate Financial Institution

Description

The purpose of this $1,200,000 loan is to spur the growth of small and medium-sized enterprises in the Caribbean Basin and Latin America engaged in agriculture, health-related activities or non-traditional exports. The loan will be made to a U.S.-based venture capital firm that will match AID's loan funds with funds from nongovernmental sources. The loan proceeds, with the matching funds, will be on-lent to qualifying subborrowers among the intended beneficiary class.

AID's immediate borrower, the U.S. venture capital firm, will take a very active entrepreneural role in identifying and developing projects that qualify for AID funding. For all proposed projects, except those involving a substantial satellite farming element, AID will provide funding only after AID has determined that the project will have sufficient development impact.

Development Impact

The overall project will emphasize subloans to agribusiness activities that include "satellite farming" systems. This emphasis is intended to assure that a significant portion of the subprojects will benefit small farmers. Inclusion of health-related and non-traditional export activities as eligible recipients will result in an increase in the availability of health products and services, the diversification of local economies and the generation of foreign exchange. The active participation of the venture capital firm in the subproject will also result in the transfer of agricultural and health technologies, as well as managerial skills, to the subborrowers. AID has opted to retain project-by-project approval in most cases rather than prescribing in advance the exact features required of each project. This affords the venture capital firm considerable flexibility but assures that the firm will be attentive to AID developmental objectives of which it has been informed in considerable detail. This project format makes it difficult, however, to specify the precise development impact the subprojects are expected to have.

BANCO DE DESARROLLO FINADE, S.A.
Dominican Republic
Project No.: 940-0002.25
AUTH. DATE: April 5, 1984
Loan No.: 517-S-048, dated April 10, 1984
Type: Intermediate Financial Institutio

Description

The purpose of this $2,000,000 loan is to increase the trade and local currency credit available to small and medium-sized, privately owned Dominican Republic businesses engaged in non-traditional exports. This project therefore supports the Caribbean Basin Initiative legislation. AID's immediate borrower, Banco de Desarrollo FINADE, a privately-owned Dominican Republic development bank, will match the loan proceeds with local currency and extend the combined credit to the small business subborrowers.

To obtain financing from FINADE, the subborrowers must also contribute to the capitalization of a Dominican Republic export trading company. AID will provide a $50,000 matching grant to permit FINADE to retain a U.S. consultant to assist in the development of the export trading company. The export trading company, once established, will provide assistance to its members in exporting the non-traditional products. This loan employs the "collateral account" structure described in connection with the PATH and Ecuadorian projects.

Development Impact

The businesses eligible to receive financing under this project range from small plot owners who grow vegetables to existing small manufacturing concerns that may be adding new product lines falling into the category of non-traditional exports. The growth in the non-traditional export sector of the Dominican Republic economy will result in both employment generation and foreign exchange earnings. The project also will entail the transfer of the technical expertise necessary to set up and operate an export trading company.

SUBPRODUCTOS DE CAFE
Costa Rica (other countries later)
Project No.: 940-0002.27
AUTH. DATE: July 27, 1984
Loan No.: 515-S-044, dated July 30, 1984
Type: Direct loan to enterprise

Description

This $1,000,000 loan to Subproductos de Cafe, a Costa Rican owned and operated company, will help finance the borrower's expansion of its current operations for extracting from coffee by-products a subtance called "Pulpina", which is used as an element of animal feed. The loan will also help finance the purchase of certain equipment capable of extracting from coffee by-products a chemical mixture consisting of caffeine, alcohol, tannin and pectine; the alcohol and caffeine may be in a commercially marketable form. The borrower has also agreed to use its best efforts to develop the technology necessary to extract tannin and pectine from the chemical mixture in commercially marketable forms.

Development Impact

Disposal of coffee waste products presents a serious environmental problem in Costa Rica. The commercial use of these products has the potential of substantially reducing this problem. Moreover, if the technology proves effective and the commercialization of the by-products profitable, this process could be replicated in virtually any other "wet-method" coffee producing country with a sufficient volume of coffee production.

The transfer of this technology to Costa Rica will permit significant value to be added to Costa Rica's local natural resources, thereby benefiting local coffee growers (including cooperatives). The coffee by-products have the potential of being exported with the resultant generation of foreign exchange; foreign exchange savings will also result from Costa Rica's decreased need to import cereals to feed livestock. Similarly, certain cereals such as corn will be made more available for human consumption. Finally, the expansion of the borrower's operations will entail the creation of new job opportunities for Costa Ricans.

COMPAGNIE MAROCAINE DE CREDIT ET DE BANQUE (CMCB)
Morocco
Project No.: 940-0002.34
AUTH. DATE: September 6, 1984
Loan No.: 608-S-053, dated December 11, 1984
Type: Intermediate Financial Institution

Description

The purpose of this $2,500,000 loan to Compagnie Marocaine de Credit et de Banque (CMCB) is to assist the growth of small business, especially export-related business, in Morocco. CMCB, a privately owned Moroccan financial institution, will match the AID loan funds with an equivalent amount of Moroccan Dirhams. AID will also provide a $50,000 grant to CMCB to permit it to obtain from U.S. institutions technical expertise in lending to small businesses in Morocco.

The AID loan proceeds will be held in a "collateral account" in a manner similar to the structure described above in the PATH and Ecuador projects. This loan structure permits CMCB to provide foreign exchange financing to its customers while reducing the financial risks associated with devaluation.

Development Impact

This loan will increase exports for small-scale Moroccan businesses and thereby generate significant amounts of foreign exchange. The growth of these small businesses will also create new job opportunities. The project broadens the export experience of an important private Moroccan bank while inducing it to serve a small-scale clientele not now being adequately served by the dominant government-owned banks.

E. APPENDIX

1. LOAN PORTFOLIO
PRIVATE SECTOR REVOLVING FUND

Loan	Funding (million)			Leveraging		Terms			Fees [5/]					
Name/Country/Project No.	(L) AID	(G)	Total	Ratio	Rate	Grace (yrs.)	Term	Late Pymt/ Default	Facil.	Commit.	Util.	Cancel/ Prepymt	Disbursements[6/]	Reflows[6/]
BANCO DE DESARROLLO FINADE, S.A. (Dominican Republic) 940-0002.25	2.0	.05	4.0	1 of 2[1/]	9.5%[2/]	4	7	X/X	X		X	X/-		
SUBPRODUCTOS DE CAFE (Costa Rica, other) 940-0002.27	1.0	.05	3.0	1 of 3	11.5%[3/]	2	10	X/X	X	X	X			
HEALTHLINK (PATH) CREDIT (Thailand and Indonesia) 940-0002.30 (Grant) 940-0002.31 (Thailand loan) 940-0002.32 (Indonesia loan)	2.5	.75	5.0	1 of 2[1/]	10.0%[4/]	5	9							
THAILAND LIVESTOCK MEAT PROCESSING (Thailand) 940-0002.24	2.5	.07	10.0	1 of 5	11.0%	2	10	-/X		X		X/X		
FINANCIERA DE GUAYAQUIL (Ecuador) 940-0002.36	1.4		2.8	1 of 2[1/]	11.5%[3/]	2	7	X/X	X		X			
FINANCIERA IBERO-AMERICANA (Ecuador) 940-0002.36	1.4		2.8	1 of 2[1/]	11.5%[3/]	2	7	X/X	X		X			
CARIBBEAN BASIN CORPORATION (CBC) (Caribbean-wide) 940-0002.41	1.2		4.8	1 of 4[1/]	12.7%	5	5	-/X		X		X/-		
COMPAGNIE MAROCAINE DE CREDIT ET DE BANQUE (CMCB) (Morocco) 940-0002.34	2.5	.05	3.0	1 of 2[1/]	9.5%[2/]	1-1/2	5	-/X	X		X			

NOTE: Footnotes on next page.

FOOTNOTES

1/ In the case of intermediate financial institutions (IFIs), the leveraging ratio quoted applies only to the agreement with the IFI, the main borrower. Accumulated on-lending, which also activates use of sub-borrowers' own funds, will increase the ratio by an estimated factor of 2-3.

2/ Based on 180-day Treasury Bills of approx. 9.5% as of 9/30/84.

3/ Based on 180-day Treasury Bills plus 2%.

4/ Based on LIBOR (about 11% as of 9/30/84 less 0.75%).

5/ Definition of fees are as follows:

a. Late payment/default penalty - a higher rate of interest is charged to discourage late payment and default; the rate is about 2% higher than that in the loan agreement in the case of default; not so severe for late payment;

b. Facility fee - charged the borrower for the benefits of having a line of credit made available; runs about .5% of loan amount and is payable shortly after signing of the loan;

c. Commitment fee - charged to induce the borrower to draw down loan funds according to a prearranged schedule, or sooner; runs .5% per year on undisbursed principal balance;

d. Utilization fee - charged the borrower for the guaranty service provided through using a collateral account; ranges from about 2.0% to .5% per year;

e. Cancellation fee - charged if the borrower exercises the right to cancel the loan;

f. Prepayment fee - charged if the borrower exercises the option to prepay the loan (which it might do if market interest rates decline); intended to help AID recoup the cost of establishing the loan.

6/ No disbursements or reflows of principal or interest had occurred as of the issuance of this report due to the early stage of projects in the portfolio. Fees totaling $7,000 had been received and deposited.

E. APPENDIX

2. LOAN REVIEW BOARD
BUREAU FOR PRIVATE ENTERPRISE
AGENCY FOR INTERNATIONAL DEVELOPMENT

George M. Ferris, Jr., Chairman
Chief Executive Officer, Ferris & Company, Inc.
Washington, D. C.

Daniel J. Callahan, III
Vice Chairman, American Security Bank
Washington, D. C.

Lawrence K. Fish
Executive Vice President, The First National Bank of Boston
Boston, Massachusetts

John R. Petty
Chairman, Marine Midland Bank
New York, New York

Alexander C. Tomlinson
Director & Former Chairman, Executive Committee
First Boston Corporation
New York, New York

George C. Williams
President & Chief Executive Officer, Allied Capital Corporation
Washington, D. C.

PREPARED STATEMENT OF R. T. ROLLIS, JR.

ASSISTANT ADMINISTRATOR FOR MANAGEMENT
AGENCY FOR INTERNATIONAL DEVELOPMENT

AID is requesting $387 million in New Budget Authority to fund its FY 1986 operating expenses. This is $4.5 million less than the amount appropriated in FY 1985. We believe that this request is consistent with the President's program to reduce workforce and costs throughout the Federal Government.

In order to operate at the requested level in FY 1986 we will be reducing our direct hire staff by 233 workyears, a reduction of about 5 percent from the FY 1985 levels. Approximately two-thirds of this reduction will be taken in Washington through structural changes including functional and organizational consolidation. The balance will be taken overseas as we focus on the closure or reduction of small missions where staff is costly in relation to program portfolios. The foregoing are in addition to the 778 workyear cuts already taken from FY 1981 through FY 1985, for a total direct hire reduction of 1,011 workyears from FY 1981 through FY 1986.

In addition to our staff reductions, we will be making reductions in virtually every category of expense through issuance of limitations or by ceasing to participate in various programs, such as support for dependent education. The only areas in which increased funding will be provided are those which are fixed, mandatory, or statutory, such as office and residential rents, payments to the Department of Labor for death and disability claims, contracts for security guards, and telephone costs.

We are also increasing our efforts to obtain trust fund contributions from host countries to cover all or a portion of mission costs payable in local currencies, thus reducing dollar funding requirements.

As direct personnel costs constitute such a large part of AID's operating expenses, we are taking every possible action to reduce these and related costs including:

Review of Department of State Foreign Affairs Support charges to determine whether there are less expensive alternatives.

Continued restriction of funding available for travel, limiting to that which is essential.

Continued emphasis on requiring personnel to spend four years at most overseas posts.

Cost effectiveness review of smaller missions.

Deferral of non-expendable property procurement in AID/W and overseas missions.

Deferral of management initiatives in office modularization, automation, and telecommunications.

Elimination of our contribution to the overseas schools program.

I also want to emphasize that we are continuing to redirect our resources to those areas where the Administration is placing its priority, that is in the Central American region and in those African countries most affected by drought.

As the security of all U.S. Government personnel overseas is becoming a matter of greater concern to us all, we are working closely with the Department of State to assure that a part of the Supplemental funds appropriated to State will be used in improving the security of AID people as well.

This is a brief summary of the rationale behind the AID operating expense budget request for 1986. I will be happy to answer any questions you may have regarding this budget request.

INTRODUCTION OF WITNESS

Senator KASTEN. Senator Inouye, do you have any opening statement or any comments?

Senator INOUYE. No, thank you, Mr. Chairman.

Senator KASTEN. Mr. McPherson, if you would care to proceed.

Mr. MCPHERSON. Thank you, Mr. Chairman.

I made my comments this morning, and without objection, I would like to turn to Dr. Nyle C. Brady, who is our Senior Assistant Administrator for Science and Technology.

Senator KASTEN. Dr. Brady.

SCIENCE AND TECHNOLOGY PROGRAM

Dr. BRADY. Thank you, Senator. I am pleased to be here to talk about AID's Program in Science and Technology.

The Bureau for Science and Technology is charged with providing scientific and technical leadership within the Agency and with the worldwide development community. To comment about what we are doing, I would just like to use a few examples, rather than go through and give greater detail.

You have heard recently about the breakthrough in the development of a malaria vaccine that came after about 15 years of AID-sponsored research. We now have, on the horizon at least, the possibility of a vaccine for that terrible disease.

Likewise, in the health area. Oral rehydration therapy [ORT] provides us a very inexpensive means of saving literally millions of children each year who would otherwise die from dehydration while being attacked by organisms that cause diarrhea. This Agency has taken the leadership in making ORT available worldwide, not only in programs that we support, but in programs that others support as well.

We will continue these kinds of research and the combination of research and services in the health area.

In the agricultural area, I would just point out something that, again, you probably have been reading about in the papers, particularly with regard to Africa. The same kind of research efforts that brought us the so-called Green Revolution in Asia will begin to pay off in Africa. A new hybrid sorghum was produced by a group of scientists from U.S. universities working together with a national research institution and one of the international agricultural research centers that we have been supporting for years. Some cassava varieties that are resistant to insects and diseases have also been produced as part of a similar effort.

NUTRITION PROGRAM

In the nutrition area, I would just comment about an anticipated result of some research that we did in Indonesia where vitamin A deficiency was known to cause nutritional blindness. We gave young people a vitamin A tablet once every 6 months and found that vitamin A was stored in their bodies and released throughout the 6 months. With this therapy, the blindness due to vitamin A deficiency was not just reduced, it was completely eliminated and, in addition, the number of children who died from other causes was reduced by 30 percent. Now we are trying to use some of the resources that you gave us last year to take this vitamin A therapy into other countries to see if this result will occur significantly elsewhere as well.

We have responsibility for centrally funded family planning programs, which includes those programs that are best carried out through private voluntary organizations. Some of the research that is done in those programs is also very useful.

We work in the forestry and natural resources area, also primarily to support research work; although some of the technical backstopping for the missions is also handled through this Bureau.

Research on education and educational achievement is handled through this Bureau in cooperation with regional bureaus and missions, in connection with field activities. As an example, a group of six African countries is working together under the technical guidance of a contractor, who is working with us to try to help them improve their educational systems through the use of such techniques as radio and self-instruction in small schools where there are tutors to help with instruction. Those are the kinds of education-enhancing projects in which we are involved.

We have found, from years of experience, that science and technology generation are essential in the development process, and we are very pleased to have an opportunity to talk to you about that this afternoon.

Mr. McPherson. Mr. Julius Becton.

DISASTER ASSISTANCE

Mr. Becton. I am the Director of the Office of Foreign Disaster Assistance, and we are concerned about two major areas: the alleviation of suffering from the humanitarian standpoint, that is, disasters that occur by nature or are manmade; second, assistance to host countries to prepare for and to prevent disasters or when one occurs, so that they can have the benefit of mitigating the impact of the disaster. We are also dealing in early warning and predictions developed by host countries so that they can better assist themselves with the obvious goal of saving the lives, reducing suffering, and preserving as much of the country well-being as possible.

In fiscal year 1984, our office responded to some 41 new disasters, 11 of which were in Africa. We administered $44 million of relief, which included $25 million appropriated by the Congress, as well as a supplemental of $16 million for transportation of food in Africa, $7.5 million for Miskito Indians in Honduras, and $2 million for Afghan refugees.

Thus far this fiscal year, our major preoccupation has been Africa. In addition to the normal involvement of the office in disasters, Peter McPherson, as the Special Coordinator to the President for International Disaster Assistance, appointed me as director of an interagency task force consisting of 12 U.S. Government agencies within the Washington area. That task force has been dealing with the subject of expediting and coordinating activities of the government in the African emergency. Thus far, this fiscal year, we have obligated in that operation more than $46 million.

Our requested budget for fiscal year 1986 is $25 million because we recognize that we have other means of obtaining money if necessary. Our bottom line remains that the better prepared a country is for a disaster, the less probability there is that death, suffering, and damage will occur.

Mr. McPherson. Christian Holmes.

TRADE AND DEVELOPMENT PROGRAM

Mr. Holmes. My name is Chris Holmes, and I am Director of Trade and Development. Our major objective is to foster trade between the United States and the developing countries, while at the same time helping developing countries finance and move ahead with key projects on their development list.

The way we operate, we basically finance feasibility studies on large scale projects in developing countries. We concentrate on those feasibility studies and those projects where there is a great deal of foreign competition. We are operating in a world right now, where with our trade deficit, there is tremendous competition overseas for a scarce number of major markets which will provide export markets for developed countries. Our effort is to use some trade finance in such a way so as to go after key development projects.

We have been concentrating in areas where the Congress has specifically instructed us to move in, and this has been heavily in the middle-income countries, and it has been very important to Mr. McPherson and others in their middle-income strategy.

I think the key aspect of this program is that it is working; based upon the evaluation that we have done with some $15 million in TDP funded feasibility studies, and we can track back some $750 million in exports from the United States. This is only at the beginning of the program. The gap between the time you finance the feasibility study and when you actually get an award for a contract for the design of the equipment, can take many years. So we are very pleased to see that in a 2-year period, we have seen such results.

For our next fiscal year, we are requesting $20 million, which is basically the same as we requested last year and we expect that our major area of concentration will be the same, namely, the ASEAN and East Asia countries for the financing of major projects, and then in areas that are of strategic importance to our Nation such as the Caribbean Basin.

Thank you, Mr. Chairman.

Senator KASTEN. Chris, thank you.

Peter, you are the coach in figuring out what the batting order is.

Mr. McPHERSON. Mr. Tom Rollis.

AID OPERATING EXPENSES

Mr. ROLLIS. Senator, I wish I had as exciting a topic to talk about as Nyle, my colleague, here, but operating expenses is one of those things that has few defenders. I know that you realize that it really is the price of management. When we talk about the additional 34 people in Central America, the additional 12 auditors in Central America, the problems in Africa where we are shipping additional people and a great deal of additional money, the thing that produces the results that you looked at is the ability to put the people on the ground.

The request that we are making of $387 million is less than 1985. In order to achieve that reduction, given all the things like rent and overseas escalation of costs that are virtually uncontrollable, it is going to require that we reduce our direct hire staff by 233 work years. To put that in some sort of context, it is more people, more U.S. direct hires than we have overseas in the entire Near East area. It is considerably above our total Inspector General staff. We think we can do it through attrition if we start it now.

To tell you how serious the problem is, although we support it and we can do it, we have declared a total hiring freeze as of January. We have postponed all new equipment, including our service contracts and data processing. No new equipment will be purchased for office automation. We will just continue our modularization program which involves replacing badly utilized space with the modern dividers which save 25 percent of space in our own buildings.

We think we can do it without serious program disruption. There does come a question as to how far down we can go in employment. In work years, in the last 5 years, we have taken 1,000 work years out of a little less than 5,900 as a base in 1981. Over the last 10 years, our program has changed due to the reductions that have been going on every year. We have gone from largely direct hire staff to handle our programs to contracts overseas. But if we are to continue as we do now the program delivery that we have now, there is going to be a problem at some point in the future as to whether or not we can properly manage the program at these reduced employment levels.

Thank you.

Senator KASTEN. Thank you.

Mr. MCPHERSON. Julia Bloch.

FOOD FOR PEACE AND VOLUNTARY ASSISTANCE

Ms. BLOCH. As usual, Senator, it is a pleasure to be here before your committee. It is also a good opportunity to talk about a budget other than that for Public Law 480. For fiscal year 1986, the Food for Peace and Voluntary Assistance Bureau is requesting $38.8 million for programs funded by development assistance functional accounts, and then $10 million for the American Schools and Hospitals Abroad Program.

This budget is modest but important. It is important because the FVA budget maximizes the developmental impact of private and voluntary organization programs funded by AID. Equally important, it maximizes the privately generated resources that private voluntary organizations bring to their activities.

Virtually all PVO grants and programs administered by the private voluntary organizations in FVA are cost-shared, and most are matched dollar for dollar. In essence, this FVA program promotes in a concrete way public and private partnerships carried out in the spirit that ensures the privateness and independence of PVO's. I know that is a subject that is of interest to you, Mr. Chairman. At the same time, it mobilizes increased funds for social and economic development in poor countries. This FVA program is only one element in AID's extensive and varied collaboration with PVO's.

Another FVA activity is the Development Education Program authorized by the Biden-Pell amendment, which is carried out through private voluntary organizations. The program activities under this account will be $2.4 million this year, and are projected to rise to $2.7 million in fiscal year 1986. This is the only FVA activity for which increased funding is proposed in recognition of the Biden-Pell's accomplishments and contributions to public awareness of world hunger and poverty issues.

A third FVA program, the Food for Peace activities funded by the DA account is a small, but a vital element of food activities. A total of $5 million is requested to fund the title II Outreach Project which provides grants to PVO's to facilitate their reaching the needy, particularly in Africa. Also, $1.5 million is requested to fund title II program enhancement, a related activity to strengthen PVO capability to design and implement complementary health, education, and training activities in support of their supplementary feeding programs.

In fiscal year 1986, we expect that total AID support to PVO's to approximate $318 million plus $345 million for Public Law 480 title II commodities and freight.

AMERICAN SCHOOLS AND HOSPITALS ABROAD

Finally, we are requesting $10 million for ASHA for fiscal year 1986. Budgetary constraints and other developmental needs have forced us to hold the request for ASHA to the fiscal year 1985 request. Enough said.

Thank you very much.

Senator KASTEN. There might not be enough said on that subject, and we are going to try to figure out a way of maybe getting your attention. It has been suggested that we take the ASHA difference out of AID operating expenses in order to somehow start to get some true budgeting going on.

Mr. MCPHERSON. My goodness, Senator.

Senator KASTEN. If we did it 1 year, whatever we end up with in the conference, we will just take the additional $20 million out of the operating expenses, put it in ASHA, and maybe that will stop all this juggling that is going on.

This is foolishness, we have done this 3 years in a row—I am told 6 or 7 years in a row, but 3 or 4 years in which I have had something to say about it. Somehow or other, we should not be wasting our time, and we shouldn't be playing these games.

I believe you have one more to introduce before we get to questions.

Mr. MCPHERSON. Ms. Neal Peden.

PRIVATE ENTERPRISE

Ms. PEDEN. I am Neal Peden with the Bureau for Private Enterprise.

This administration's Private Enterprise Initiative seeks to mobilize private sector skills and resources in order to meet basic human needs. The Bureau of Private Enterprise gives impetus and direction to this initiative.

The Bureau is requesting $40.26 million for fiscal year 1986. Since its establishment in July 1981, we believe that the Bureau has made significant progress in spreading the private sector awareness and practices throughout the agency, thus providing field missions with a valuable and effective development tool.

In the past year, we have concentrated on developing the portfolio of AID's private sector revolving fund, established with the support of this subcommittee. Each loan to the fund is designed to leverage limited tax dollars by attracting additional resources from the private sector.

Bureau activity in fiscal year 1986 will include further development of intermediate financial institutions to reach small and micro enterprises in less developed countries, increased use of the satellite farm concept which stimulates ODC agricultural production and income, and an acceleration of this Bureau's commercialization of technology program.

Mr. Chairman, I look forward to working with the subcommittee to ensure that AID's private sector initiative will continue to be an innovative, cost-effective, and an integral part of the Foreign Assistance Program.

Senator KASTEN. We look forward to working with you. We appreciate the work that you have done, and the work that you are doing. I think that this private enterprise effort is very important.

I would like to yield my time to Senator Specter at this time.

Senator Specter.

Senator SPECTER. Thank you very much, Mr. Chairman. I appreciate that. I have to return to the Conrail hearing which is in progress now in the Judiciary Committee, and I wanted to ask a couple of questions of Mr. McPherson.

MARINE TECHNOLOGY PROGRAM

I have written to you just today on the subject, Mr. McPherson, and I would like to ask you about the funding for the Marine Technology Program, which I note was funded at $1 million in fiscal years 1983 and 1984, and the level was dropped to $872,000. I ask about it because a very able businessman from Pennsylvania, Mr. Don Cohan, has written to me concerning activities which he is undertaking to be funded from that program.

I wonder what advice you could give us as to where that matter is headed?

Mr. MCPHERSON. That is a program that is funded out of the Near East Bureau regional cooperation funds. I am told that it is a good program at a more or less good, sound level. My Near East people may have discussed it very briefly this morning. I wonder, Senator, if I could get you in writing a more detailed response. You have written to me, I gather, as you have indicated.

Senator SPECTER. Yes; the letter was just written today, so I wouldn't have expected you to answer by this moment obviously, but if you could provide some information, I would appreciate it.

Mr. MCPHERSON. Of course.

ISRAELI COMPUTER TRAINING SCHOOL

Senator SPECTER. Mr. McPherson, I have also written you about a school in Israel known as Itamar Institute for Language and Computer Science. I wondered if you had any response on that subject.

Mr. MCPHERSON. The ASHA decisions are those that I have reviewed once, and I am about ready to wrap up in the next few days. I know that that is one of the applications. I remember your note, and I think that we have discussed it as well. I don't have a further response for you, but I will be giving you that shortly.

Senator SPECTER. Before you complete your review, I would appreciate it if you would let me know what the status of it is.

Mr. McPHERSON. Of course.

Senator SPECTER. Thank you very much. I appreciate it.

Senator KASTEN. On that particular issue, didn't you in fact have someone go to Israel to look at that school, along with a couple of others?

Mr. McPHERSON. Yes.

Senator KASTEN. Can you make a preliminary report to Senator Specter and to the committee at this time?

Mr. McPHERSON. I don't think that I would do it justice if I tried to do it from memory. There were some problems, but we thought that maybe we wanted to look at it further, as well.

Senator KASTEN. This is an issue that a number of people on the committee, along with Senator Specter, have an interest in, as I hope you are aware.

Mr. McPHERSON. Yes, Senator, indeed.

Senator KASTEN. Senator Inouye.

Senator INOUYE. Before proceeding, Mr. Chairman, may I make the same request or join Senator Specter in the same request as it relates to Ohr Somayach School.

Mr. McPHERSON. Yes; I know of your deep interest in that particular program.

U.N. FUND FOR POPULATION ACTIVITIES

Senator INOUYE. Mr. Administrator, when you called to advise me of your decision relating to the U.N. Fund for Population Activities, I must confess that I was not quite prepared to make any response, obviously, I didn't say anything, but as soon as I received your call I got in touch with my staff here to look into this matter and prepare a memo for me. Based upon that memo, I have drawn up a few questions, and these are the only questions I have. The others I would like to submit for the record.

Senator KASTEN. Without objection, so ordered.

Mr. McPHERSON. We look forward to them, Senator.

Senator INOUYE. Public Law 98–473, which was signed into law by the President on October 12, 1984, provides that not less than $46 million in fiscal year 1986 population planning assistance shall be available only to support the U.N. Fund for Population Activities.

When the Secretary of State appeared before the committee to testify on the President's request for fiscal year 1986 funding, I asked the Secretary a series of questions relating to this earmark specifically. In response to the question, "Does the administration accept the policy guidance of the Congress as expressed in the Foreign Assistance Act when determining which organizations are eligible for program funding?" The Secretary of State said, and I quote, "I always take seriously congressional policy guidance and statutory enactments, and as throughout my entire career in Government, I have always carried out the legislation I have been entrusted with, and felt that my role, if I didn't agree with it, was to come back and complain to you about it, but in the meantime to carry it out."

I presume you share this view.

Mr. McPherson. Yes, sir.

Senator Inouye. If you do, will you carry out the intent of Congress as expressed in this Public Law 98–473?

Mr. McPherson. What I am essentially doing, Senator, is seeking further expression from Congress.

Our thought process has been as follows: The UNFPA has not been funding coerced abortion in any country in the world, in our judgment. Accordingly, there is no violation of the law in providing the full $46 million to UNFPA. But as we have looked carefully at one country, it is our judgment that the programs there, the family planning programs—not the family planning programs of UNFPA, but the family planning programs of that government—are of a coercive nature. At least there is a great deal of coerciveness in the programs as implemented. That coerciveness is of such a nature that we felt the U.S. Family Planning Program should distance itself from that.

Because Congress had appropriated this money, had laid out this language, we obviously could not simply make that decision ourselves. If we tried to do so, we would be in violation of the Budget and Impoundment Act. We have made it very clear here what we believe should have been done at the time this continuing resolution was passed.

POPULATION ASSISTANCE RESCISSION

What we propose to do is to come back to you with a request for a repeal of the earmark for UNFPA. In fact, $36 million has already been disbursed. That last $10 million, the amount which UNFPA gave to the country in question, is the amount that will be affected by a repeal of the earmark.

We, in short, are saying to you, we believe that what was stated and contained in the resolution, you may wish to reconsider, and we are requesting you to do so.

Senator Inouye. Can you specify these countries that you speak of?

Mr. McPherson. In our initial release, we did not, but our concern is about the country of China.

Senator Inouye. Is it your conclusion or finding that these funds would fund the coercion and the abortions in the People's Republic of China?

Mr. McPherson. Our finding is that UNFPA funds themselves would not fund the coercion, but that the country of China's programs are of such a nature that we believe the United States would wish to distance itself from those programs.

We have struggled hard and long, as you know, to keep this a balanced program, and, I think, the correct program. One that would not fund, or in this case we worry about too close an association with, coercion in family planning for abortion, and on the other hand one that would assure a strong, effective, family planning program. That is why we have disbursed the $36 million, because we think that UNFPA generally does a pretty good job. On the other hand, we have said, as to that $10 million, that is the full amount that the UNFPA gave to China. As to that $10 million we are asking Congress to reconsider its position.

We ask one thing further, though, as I think I indicated to you on the phone. Inasmuch as we don't want to have family planning in any way reduced, since we strongly support family planning, the effect of eliminating the earmark will be to allow that $10 million for bilateral family planning activity.

Senator INOUYE. Has the U.N. Fund offered to maintain U.S. money in a separate account?

Mr. McPHERSON. They have, yes, sir. Indeed, the $36 million which we are disbursing is a fairly informal arrangement, but in effect it is a sub-bank account, and that separate sub-bank account will not be used for programs that the UNFPA apparently will conduct in China this year.

Senator INOUYE. So $36 million has been released to the U.N. Fund.

Mr. McPHERSON. That is correct, pursuant to the legislation that you have referred to.

Senator INOUYE. But in a separate fund.

Mr. McPHERSON. Yes.

Senator INOUYE. Why couldn't you put the other $10 million in there?

Mr. McPHERSON. We think that if we simply provide the whole $46 million in a separate account—that is what we did last year, by the way—we are not making a sufficient statement and petition concerning our deep concern in the coercion that I speak of.

It is a delicate balance that I walk practically every day of the week on this issue. We need a strong family planning program. It is an important component of what we do. In order to keep the support for that kind of a family planning program within the country, within the executive branch, within the Congress, it is necessary, I think, to keep careful distance away from abortion and coercion in family planning.

OTHER AID TO CHINA

Senator INOUYE. I have received several letters from constituents on related matters. I would just like to have on the record your response. The letters are very similar, they say: If you feel that the People's Republic of China is carrying out activities which are offensive to the policy of the Government of the United States, to wit, coercion and abortion, why do we at the same time provide increased funding for other activities?

Mr. McPHERSON. Increased funding for what other activities are you speaking of?

Senator INOUYE. Military assistance, Peace Corps funds, et cetera.

Mr. McPHERSON. I don't understand, Senator.

Senator INOUYE. I just want the record to show your reason, I think both of us know what the answer is. On the one hand, we are saying: China, you are doing something very offensive to morality and otherwise, therefore, we are not going to give you any assistance. Then, we shift gears and say: We love you dearly, therefore, we are going to provide you funds from the Peace Corps.

Mr. McPHERSON. I don't think that we have a Peace Corps Program in China.

Senator INOUYE. That is a proposal before you, and I think you are going to approve that.

Mr. McPHERSON. I think the distinction that we would make, Senator, is that we certainly have a good relationship with the People's Republic of China. It is a country for whom we have a great deal of respect for many things that they do. Our concern is not across-the-board with China, but this is one activity within the whole People's Republic of China that we are concerned about. By making this financial statement, if you will, in the fashion that we have, trying to do so in an inoffensive but clear and strong way, we hope that over time changes will be made in programs in the People's Republic of China.

POPULATION POLICY IN CHINA

Senator INOUYE. For the record, can you describe for this committee what you consider as being coercive abortions in the People's Republic of China?

Mr. McPHERSON. My concern is that the official government position of the People's Republic of China is that it is not their policy to have coercion. We respect the position of the People's Republic of China on that. We respect their sovereignty to make that position statement. The problem is that numerous reports, both academic and in the press, suggest that in the implementation of the quotas, of the population goals, the one family policy, there appears to be coercion in a fairly widespread fashion.

While we are not in a position to make ultimate judgments about everything that happens in China, obviously, the incidence and the reports of coercion are such that we feel that it is important to make a clear statement and distance ourselves from this matter.

ASHA FUNDING

Senator INOUYE. Just in closing, I would like to join the chairman in suggesting that you go back to your desk and review ASHA again, because it makes all of us look ridiculous.

Mr. McPHERSON. Senator D'Amato is here, and he is going to ask the same question in a minute.

Senator INOUYE. It is going to be increased, it is no surprise.

Mr. McPHERSON. It was interesting in the House Foreign Affairs Committee today, they increased it to $40 million. One of our theories is that if we were to come in with a reasonable figure, let's say, $30 million, if we would straightline it, then the pressure from some quarters would be to increase it even more.

What we need on this issue is kind of a coalition of parties, I think, to reach an understanding of what a reasonable figure is and to assure it won't be bumped up. This committee has been very responsible and careful about this issue. But I fear that if I didn't watch it, over a period of another 3 or 4 years, I could have an ASHA account that is much bigger, a huge account.

That is really our concern. We don't mean to be cute, but you see our fears.

Senator KASTEN. I don't know that it is cute, but at one point we are just going to have to put an end to this, and I think that we might have a solution.

Mr. MCPHERSON. Senator, I think you need to reconsider that seriously. [Laughter.]

Senator KASTEN. I wanted to say to the Senator from New York, I was suggesting that one way of stopping some of this gamesmanship would be to simply, whatever the net bottom line is after we get through the conference on AID operating expenses, and then from that amount take the $20 million or whatever it is going to be for the American schools and hospitals abroad so that they will start their defense between themselves rather than OMB, and involve the other kinds of people who are now carrying on the battle.

Are you finished with your questions, Senator Inouye?

Senator INOUYE. I will submit the rest of my questions for the record.

Senator KASTEN. Without objection, so ordered.

Senator D'Amato.

Senator D'AMATO. Thank you, Mr. Chairman. It is always a pleasure to be here with you and my distinguished colleague, Senator Inouye, and having Mr. McPherson and his people have the benefit of some of our thoughts and asking several questions.

PREPARED STATEMENT

For the record, I will ask that my statement be submitted for the record in its entirety, without making any at all.

Senator KASTEN. Without objection, so ordered.

[The statement of Senator D'Amato follows:]

PREPARED STATEMENT OF HON. ALFONSE D'AMATO

U.S. SENATOR FROM NEW YORK

Thank you, Mr. Chairman, for holding this important set of hearings and thank you, Mr. McPherson, for joining us today.

Our Economic Assistance Program is one of our most effective foreign policy tools. It is also one of the most humanitarian acts our Government performs. This is especially evident by our efforts in drought-stricken, sub-Saharan Africa. I commend your Agency's efforts to assist millions of starving Africans to cope with this natural disaster.

Although I generally agree with most of the funding levels you have submitted in the fiscal year 1986 budget, I am disconcerted that once again you have proposed a meager budget for the American Schools and Hospitals Abroad Program. I fail to see why this program is continually scheduled for reductions.

The ASHA Program is one of our major foreign policy successes. The United States is a leader in education and in medical care. The ASHA Program assists U.S. educational and medical institutions abroad to help share our advantages in these most important areas. Currently, over 134,000 students from 104 countries are studying at ASHA-assisted schools and more than 3.3 million persons receive medical care from ASHA-assisted hospitals. During the past 4 years, ASHA grants have been awarded to 59 different institutions with widespread geographic distribution.

U.S. institutions abroad foster a positive U.S. image, as well as promote social and economic development. Yet, funding from this program has always been minimal. Between 1970 and 1983, the ASHA budget rarely went over $20 million, while the purchasing price of the dollar declined by 40 percent. For fiscal years 1984 and 1985, the budget was increased to $30 million over administration objections. I am dismayed therefore that you are proposing to reduce the ASHA budget by two-thirds.

I am also concerned about Economic Support Fund levels for Israel. I understand that the Israeli Government has proposed an austere budget. I hope that you will soon be able to make known the amount the administration will request for economic assistance to Israel for the fiscal year 1985 supplemental appropriations bill and get it up to the Hill as soon as possible.

In addition, I am disappointed that the proposed level for Economic Support Funds for Cyprus is $3 million, down from $15 million appropriated for this fiscal year. The scholarship program has been very successful in Cyprus and such a reduction would do much harm.

The United States Foreign Economic Assistance Program can be an effective diplomatic tool. I look forward to continued cooperation between AID and Congress in developing foreign assistance policy important to recipient countries and to our Nation.

Thank you, Mr. Chairman.

NEED FOR ASHA PROGRAM

Senator D'Amato. I will get to that area that Senator Inouye has touched, and perhaps make a statement.

I would think that we have to be professional enough to understand that we are going to operate at, at least that level that we have operated on in the past. There is certainly the need for the ASHA Program. It has not been reduced. It certainly has been an effective tool and program on a humanitarian basis, on a scientific basis, and all of those kinds of processes that we think are important for this Nation and for others. So if somehow we could stop this around and around.

I thought that the last time when you cut it, and we increased it by $10 million that would kind of give you the signal, or maybe OMB, or some others. Maybe we have to tell them, every time you cut, we are going increase *x* million over and above.

Senator Kasten. And take it out of operating expenses.

Mr. McPherson. No, Senator.

Senator D'Amato. You know our concerns.

I have asked you, and I have sent letters to you, but for the record, would you review the application of the Hadassah Medical Center, for example. I understand that preliminarily there has been some approval, but they have cut it to $250,000, and certainly their costs of operation have not gone down, but if anything they have gone up, I am not asking that we increase it, but not to cut it. The Hadassah Hebrew Medical Center of Jerusalem, Shaare Zedek Hospital in Jerusalem, and Ioniado Hospital, if you would take those into consideration, I would appreciate it.

Mr. McPherson. Thank you, Senator.

AID TO CYPRUS

Senator D'Amato. There is one question I have, and I am concerned about it. I think the island nation of Cyprus is of great importance to this Nation, to our strategic relationships in that area of the world. It has demonstrated repeatedly for the past several years its consistency of policy toward the United States.

When we were in the process of removing our troops from Lebanon, it was Cyprus, if I am not mistaken, that let us use, without any fanfare, without any trouble, without any arm-twisting, its bases. Is that not correct?

Mr. McPherson. That is very correct. Indeed, when I went to Lebanon, I went through Cyprus two different times.

Senator D'Amato. It played that part well without having to go and to make unusual concessions, et cetera. They were there steadfastly. I would suggest that there were some of our other allies who did not respond in the manner in which Cyprus did, but only after Cyprus had said, yes, you can use us as a major ingredient in providing safe cover for the U.S. withdrawal. Then some of our other allies came forward. Is that not correct?

Mr. McPherson. Do you want me to say——

Senator D'Amato. If you want me to be more specific, I can do it.

Mr. McPherson. There is no question that Cyprus was very positive in that.

Senator D'Amato. That being the case, the need, particularly as it relates to the refugee problems, and we may say that in the scheme of all the problems that exist worldwide that its refugee problem on the scale of 1 to 10 may not be nearly as acute as some of the others. There still is in that area of the world, in that island nation, an acute refugee problem. I have been there. I have seen it. I think that we make a big mistake in moving the program from $15 million down to $3 million.

With my colleagues, I have been arguing about a better distribution of those funds because I don't think that they should all go into that scholarship program. This time, I am going to tell that I am prepared to do battle on that.

Mr. McPherson. I think that we have about a 50/50 distribution this time.

Senator D'Amato. I would just commend to your attention the fact that I don't believe you can justify that reduction in the face of the massive dislocation in population, the sensitivity of that area, and the need that has been demonstrated. Psychologically, a cut of this kind, from $15 million down to $3 million, is damaging to the United States and to our interests.

Mr. McPherson. Could we work on some cut?

Senator D'Amato. I have shared this with the chairman, and with my distinguished colleague, Senator Inouye, I think that it would be counterproductive. I am suggesting to you that it will cost us much more. It would be viewed by the Cypriots as our taking offense at their own undertakings in relationship to the United States.

That is why, given the very fragile situation with Greece, Turkey, the island itself with the separation that has been imposed, and on which the negotiations with both the United Nations and others are taking place, it seems to me to be very counterproductive. I urge upon you not to undertake this because for a relatively few dollars, we could be sending the wrong message there.

I wanted to put my concerns on the record, and I would hope that the majority of the committee would support me in that position.

Mr. Chairman, I have some other questions which I would like to submit for the record, but I have no further questions.

Senator KASTEN. Without objection, the questions will be submitted for the record.

WISCONSIN DISASTER MANAGEMENT CENTER

I just wanted to touch on a couple of the areas that are represented here. First of all, on disaster assistance, we have seen some correspondence from the Disaster Management Center at the University of Wisconsin. As you know the Disaster Management Center is in a unique position to help in the current disaster and the disaster relief programs in Africa.

Are you working with that Center? If not, can we expect that at least you will contact them to see if you can be of some assistance?

Mr. BECTON. I can answer that question, Mr. Chairman. The Disaster Management Center is part of the University of Wisconsin's Extension Service. The center is developing a diploma program in disaster management using a series of correspondence courses which include a segment on famine.

The diploma course will be reviewed this fall by a board from the university as well as international disaster specialists. Once approved, the courses on famine and other aspects will be formally offered.

OFDA, my office, has participated in funding and review of the program, and we anticipate valuable services from that center. It will be of some assistance in disaster management in Africa today.

Senator KASTEN. The answer is that, yes, you are in contact with them, and you are working with them.

Mr. BECTON. We are funding part of it, and we are reviewing the program.

DEOBLIGATION-REOBLIGATION AUTHORITY

Senator KASTEN. On operating expenses, you have been quoted in the media as saying that the deobligation and reobligation authority given to you by this committee is the best management tool obtained by the Agency for International Development since the passage of the Foreign Assistance Act. For that, we thank you.

The President echoed this sentiment when he gave one of your employees a high award for his role in securing this authority. Since you are not asking for this authority this year, I take it that you no longer view this authority as you once did, and no longer believe that it is necessary.

Mr. MCPHERSON. I think our position is, we count on the continued wisdom of the committee.

Senator KASTEN. Why is it that we have to come back and reimpose this?

Mr. McPherson. This is obviously an awkward situation. Suffice it to say that in the past I found this a very helpful tool. I envision, in the years ahead, that there will be modest amounts, but not major chunks of deobligation. We have already deobligated and reobligated the major chunks. The deobligations now tend to be small chunks. In fact, the threat of deobligation is a very effective way to get the attention of administrators.

Senator Inouye. Would the chairman yield?

Senator Kasten. I will be happy to yield to Senator Inouye.

Senator Inouye. Do you want us to force it upon you again?

Senator Kasten. He is saying, OMB is the problem once more.

Mr. McPherson. No; I wouldn't say that.

Senator Kasten. Is this your paper?

Mr. McPherson. Yes, sir.

Senator Kasten. It says, "AID benefits from management initiative," this is your lead story, "to improve the project implementation process, contractor performance is now being monitored to assure compliance and adherence to schedule. If this is not possible, every effort will be made to close down the project and deobligate the funds for subsequent reobligation in new workable project." This was written in January 1985.

Why don't we just leave the law as it is, and continue to work in the direction, as stated on the second page, the right-hand side. There is no picture above the fold, but other than that——

Mr. McPherson. We considered a picture of Senators Kasten and Inouye shaking hands.

Senator Kasten. This is something that we want to work with you on, and continue to work with you on. I happen to agree with your newspaper article, and not agree with your budget request. Hopefully, we are going to be able to work that through.

FACILITIES SECURITY

Last year, the State Department requested an urgent supplemental for the security and the protection of U.S. facilities overseas. You did not request such a supplemental. Where does this all stand and are you satisfied that AID facilities overseas are in fact adequately protected?

Mr. McPherson. Those are two separate questions.

Senator Kasten. Actually, let me ask one other question, and then you can answer.

It is my understanding that the funds that you request for security, I guess the same category as the protection of your facilities, security protection, are part of the Inspector General's operating expenses. Where do you stand in terms of those funds? If we have additional expenses, can we take them out of there, or are you coming back with a supplemental?

I am just trying to get to one question, and then you can answer the whole thing. How safe are we? Are you coming back with a supplemental? Are you satisfied with this being a part of the Inspector General's funds, that you can set aside something and spend it? What is your plan?

Mr. ROLLIS. The supplemental that was requested was about $361 million for the State Department, and maybe $110 million for security. Within that amount there is about $5 million made available for USIA, and the balance is for the State Department.

The reason that it came up for those two agencies and not AID is a separation both within OMB and within the Congress as to the mechanics of the supplemental. Subsequent to that time, the State Department and OMB have agreed that the State Department would make available $4.8 million of that for AID's use.

That was a calculation independently arrived at as to what we would need to install a little over $2 million worth of public access controls, and another $2.5 million worth of other things.

We are currently in negotiation with the State Department as to how that money will be transferred, but we have no problem with the fact that they are going to make $4.8 million available to us.

In addition to that, we have typically spent about $1.2 to $1.6 million of operating expense funds for radios and residential equipment, and those kinds of supplemental things.

The State Department has over 400 people devoted to security, and we have 21. They have the overall responsibility for security overseas. So we feel that the $4.8 million will satisfy our needs as we have seen them over the years for the next year and a half, or the next couple of years. In other words, it will provide public access controls and upgrades to a number of them to the point where we feel that we will be more secure than we have been in the past to meet the increased need.

The basic question, though, is whether or not our overseas posts are as safe. There is still a deep question here, given the changed circumstances with terrorism, as to how we objectively and professionally categorize the level of threat within a post.

There is no question that the embassy or the ambassador's car with a flag on the fender faces a terrorist attack with a threat higher than one of our jeeps going up country carrying something for the people of the countries. There is no question that the embassy itself is in more danger than our motor pool or their motor pool located somewhere else.

We are studying with the help of the Inman Committee on Security what those threat levels should be, and what would be a responsible reaction to it. You see, 57 of our 67 posts are located in rented buildings. There is no way that the American people can afford any kind of a bill to make those into forts. We are going to have to recognize the differing levels of threat, and we will have to quantify it as to how much it will take to bring those up to what is a reasonable standard of safety.

Senator KASTEN. We know that it is a tough problem, and we will work with you. We are just concerned as to where the money might be coming from, and whether or not a supplemental was needed. If it is, we ought to get on with it.

Mr. ROLLIS. Until we exhaust the $4.8 million coming out of State, I don't think that it will be.

TRAVEL FUNDS FOR INSPECTOR GENERAL

Senator KASTEN. You mentioned the Inspector General. The committee has raised the concern that the Inspector General's responsibilities were hindered by some budget action. Specifically, the committee raised some concern on reducing or cutting some of the Inspector General's travel funds.

Have you now in fact provided the necessary funds, or the funds requested by the Inspector General in the current fiscal year, as well as for fiscal year 1984 sufficient?

Mr. ROLLIS. For the past 3 years, we have allocated to the Inspector General more travel funds than have been used. In every single year, he has voluntarily given us travel funds back that were unspent.

As to the particulars of whether we granted exactly what he requested this year or not, I am not sure. That is normally a process where his budget people sit down with the Deputy Controller for Budget and work out an estimate of what will be necessary.

I am certain that General Beckington would echo my words and say that he has always had adequate travel funds. There has been some disagreement over the move to Honduras as to whether that was cost effective or not. We have arrived at a compromise now, and we have severely reduced the 1986 budget.

Remember that I said originally that we were cutting 233 work years out of our AID, which is more than the U.S. direct hires we have in the entire continent of the Near East overseas. The Inspector General has agreed to reduce his FTE's by two. The Inspector General now takes about 5 percent of our operating expense funds.

Senator KASTEN. We want to make sure, one way or the other, that that group continues to be able to do its job.

Mr. ROLLIS. We are well aware of that.

PRIVATE SECTOR APPROACHES TO EDUCATION

Senator KASTEN. Let me switch to the private sector. In a February 1982, workshop, AID, CRS, U.S. College, the World Bank, UNDP, and private sector participants concluded that: "AID needs to give more attention to strategies for more cost effective approaches (especially in basic education). The private sector (consulting firms, PVO's, and universities) approaches to education and training should be examined."

Obviously, you were not there at that time, but the basic thrust toward private sector approaches to education and training were discussed. What, if anything, are you doing to follow up on that conclusion of the workshop? Specifically, what are you doing in terms of private sector approaches to education and training?

Ms. PEDEN. My Bureau has a new private sector training course, as a matter of fact. We were encouraged by the feedback that we received from it. Participants were private sector officers from AID's field positions. Most of these people are in collateral capacities within the field mission offices, and they had not previously had private sector training.

We have another course that is coming up, taking place in May. We are hoping to institutionalize it within AID in the first and the last parts of the summer to pick up people when they are home on leave or going back to their posts. This is one of the things in training that we have done specifically.

Of course, we need to do a lot throughout the field missions. We do support education by bringing out consultants or people who can do these courses for them. But we take a lot of pride in this one particular course, that is our baby.

Mr. McPHERSON. There is another aspect of this as to how we provide training to people in poor countries. Chris Holmes has been working on an idea that I think is really quite an intriguing one.

Chris, why don't you describe that?

Mr. HOLMES. Mr. Chairman, as you know, in trying to capture export markets for an American firm, we will offer a developing country a grant to do some feasibility studies. It will help the developing country, and it helps the American firm because the American firm has the inside track on the project.

What we are doing now is trying to develop a mechanism that when we go to a developing country we say: Look, we know that Allis Chalmers is bidding on these facilities, and we know that the Japanese are also bidding on those facilities. We will offer you not only grant financing to do the planning, but we will also offer you training, to bring people from the developing countries to the United States for training, and train people within the developing countries on project management technologies.

This is an initiative that we have begun just this year, and we think that it has a great deal of promise.

Mr. McPHERSON. There are several other training mechanisms that have been in place for some time. For example, let me talk about a project in Peru, it is not a big project, but I think it makes the point.

SATELLITE FARMING

We provided a training grant to a canning company, a new canning company. The training grant was used by that company to go out and train farmers who had never grown asparagus before. They trained them to grow asparagus in the fashion that the company wanted. The company, in turn, exported that canned asparagus to France.

That kind of training provided a transfer of technology and also provided hard currency for the country. We call that project Satellite Farming, and we are doing more and more of that. We think that one of the best ways to train people is to have those who are going to employ them, train them.

MIXED CREDITS

Senator KASTEN. Let me touch on a related question. A couple of weeks ago when Bill Draper was here testifying on behalf of the Exim Bank, we talked about mixed credits, a subject which you and I have had discussions about as well.

At that time, I confronted him with an AID memorandum, dated September 6, 1984, in which essentially the recommendation—I can't tell who this is to, but it is an Action Memorandum for the Administrator. "It is important that we develop a strategy and work with Exim to prepare the case against mixed credits."

We have talked about different ways that the administration has tried to subvert or get around the legislation which has been passed, or I should say, that you prepared the case against mixed credits notwithstanding legislation passed by Congress in which both the House and the Senate are trying to work toward a mixed credit strategy.

Among the other alternatives mentioned in the memo are: "Terminate mixed credits by congressional action. This is the one that Eximbank raised" with you. "It would eliminate the mixed credits." . . . "While AID would still be legally able to conduct mixed credits programs, such as the Egypt TFF, the pressure would (I believe) be much different."

The other thing that AID could do is "Design a mixed credits program with relatively limited resources."

Congress is concerned about the overall question of trade balance, but particularly mixed credits. How do you explain what you are doing here, especially in view of the disastrous situation in terms of the trade imbalance today?

Mr. MCPHERSON. I think we all agree that in a world that we would like to go toward, mixed credits shouldn't exist. They skew a market, and they are not the best way to allocate resources. To the end, we continue to work with our trading competitors, the Europeans, and so forth, through DAC in Paris to attempt to develop some guidelines and restrictions on the use of mixed credits. This has been marginally, at best, successful.

Senator KASTEN. I think that is an overstatement.

Mr. MCPHERSON. In the last few weeks, it looks like some possible interest has developed, but frankly, as you are suggesting, nothing much is happening.

Senator KASTEN. Except that we are losing business, and that our trade deficit is growing, and that is a fact.

Mr. MCPHERSON. I think that our trade deficit is largely growing because of the strength of the dollar. But in fact nothing much has happened in these negotiations to roll back mixed credits.

I will be frank and say that I don't like mixed credits very much. But, on the other hand, Congress has said that we are supposed to be doing something, and to that end a few months ago we offered to finance, under a mixed credit arrangement, some 10 locomotives in Botswana. The Canadians got the bid, but we put the money on the table for purposes of a mixed credit comparative package.

The other one I have just approved, as a matter of fact, is a project in Egypt for another power facility, an electrical power facility. Once the mixed credit thing is put on the table, there is usually a bid process that follows it.

Senator KASTEN. You have approved it, but it is now hung up at the Eximbank, is that right?

Mr. MCPHERSON. It appears that the Eximbank is willing to support a mixed-credit arrangement. However, the thing is unlikely to be able to win even though we have approved the proposition.

I don't want to come to you and say that I am a major advocate of mixed credits because I have some grave doubts about it. But the facts are that we think that we need to, on a careful basis, do things like the locomotives. There we had the money. We thought that the locomotives were a reasonable thing for Botswana to purchase. In Egypt, I was able to provide the money. Frankly, we are experimenting and getting into it, and that is what I think Congress wants us to do.

Senator KASTEN. What we want you to do is experiment and get into it, but we don't necessarily want you to spend a whole lot of time working with Exim to prepare the case against mixed credits. We believe that we have to compete. The ideal world that you describe isn't there. We are losing business to the French. We are losing business to the Japanese. We are losing business to a number of different countries.

We had a very difficult hearing with Mr. Draper. We are probably going to have to come back and revisit that whole issue. We may call on you or somebody from AID on this mixed-credit issue.

We are not in an ideal world, and I think that right now your mandate is to work with Congress in order to try to compete with our competitors as opposed to working against Congress, developing the case against mixed credits.

Senator INOUYE. Mr. Chairman, am I correct to assume that this memo was authored by the Administrator?

Mr. MCPHERSON. No; it was prepared for me.

Senator KASTEN. This was prepared for the Administrator by a person on the Administrator's staff, and circulated, as far as we can tell, to Exim, AID, et cetera. The concern that we have is that it has been signed by the Administrator, and the Administrator had a choice of saying, agree or disagree, or no comment, and the Administrator initiated it, I agree, indicating, therefore, get to work and work with Exim to prepare the case against mixed credits. That is the concern that the committee has, and I think that we simply have got to move forward.

PRIVATE VOLUNTARY ORGANIZATIONS

Senator INOUYE. Most Members of Congress, whenever they hear the three words, private voluntary organizations, assume that these are for the most part financed through private contributions. I think that that is a reasonable conclusion to reach. Yet, you and I know that most of these PVO's have great difficulty in raising funds from the private sector As a result, I think the overall average would indicate that less than

15 percent of the funds used by the PVO's come from contributions, and the rest comes from the Government of the United States.

Mr. McPHERSON. Yes.

Senator INOUYE. Are we making any efforts to encourage these PVO's to be a bit more aggressive in their fundraising?

Ms. BLOCH. Senator, very much so. We share your concern, and many of the PVO's share your concern because it is the maintenance of their privateness that ensures their long-term credibility.

I would say that we have on the books a 20-percent privateness test as requirement for eligibility for set-aside PVO programs.

Senator INOUYE. Do you apply that?

Ms. BLOCH. This has been in implementation since October 1984, and our experience to date is that kind of a threshold percentage is useful in identifying PVO's that may be overly dependent on USG funding.

I would also point out that the more recent Lewis amendment, which increased the privateness test to 25 percent, also called for a study by AID as to the implications of the privateness requirements. We have found that over 100 PVO's that we see AID funding, over 25 cannot qualify that, in fact cannot qualify if, the 20 or 25 percent eligibility requirement were imposed. Those core groups include primarily four different types: operatives, labor institutes, the population organizations, and what is a new category now, the socially disadvantaged and minority PVO's.

Most of these organizations are intermediates that carry out activities for AID.

Senator INOUYE. When we speak of 20 percent, is it 20 percent of cash, or 20 percent of cash plus in kind?

Ms. BLOCH. Twenty percent of cash. We find that cash is probably the most deficient.

Senator INOUYE. You are not including in kind.

Ms. BLOCH. No; we are not including in kind. However, we do have a waivor authority, and we take into consideration those organizations that perhaps have a large number of voluntary services or certain kinds of in kind contributions into account.

Senator INOUYE. Recently, a former AID staff member made an observation to me that a great number of the people in charge of the PVO's are former AID officials. Is that correct?

Ms. BLOCH. I don't think that a great number are in charge. I know that recently one organization hired several as vice presidents. There is another one that I know of that has become the head of staff for a consortium of PVO's. I know that some have been hired, but not necessarily as the head.

Senator INOUYE. I am not suggesting that it is against the law.

AID OPERATING EXPENSES

I would like to make an observation, Mr. Chairman, in closing. Much has been said about operating expenses. I think they have gone a long way. About 10 years ago, when this committee was quite frustrated with the operating expense account, there wasn't much accounting to speak of. Staff made an investigation and we found, to our dismay, that there were more typewriters in the Washington inventory than there were Washington based AID employees. I think there were 1½ typewriters per person. This study was made because they had requested another 100 typewriters.

Since that time, Mr. Chairman, much has improved. I think you have done very well, and we commend you. Now we know how the moneys are spent for the most part, but there was a time when no one knew how the moneys were spent because they went from one account to another. That was one of my little contributions as a member of this committee.

Senator KASTEN. One of your many contributions, Senator.

Mr. MCPHERSON. I must say, Senator, you are famous at AID for that contribution.

Senator INOUYE. I hear that they throw darts at my face.

Mr. MCPHERSON. We appreciate the support.

Senator INOUYE. Thank you very much.

TRADE AND DEVELOPMENT PROGRAM

Senator KASTEN. I would like to get an update on how the Trade and Development Program is working, and with a bit more specificity on what countries are represented, and in particular the concerns expressed by the Kissinger Commission. It seems to me that the work that you are doing ought to be directed toward Central America, the Caribbean basin, et cetera, and yet in the justification material that is not one of the areas that right now has any significant emphasis. Am I right, or am I wrong? Maybe I am reading it differently, but it seems to me that if we are going to go out and do the work that you are doing and doing well, that we ought to be trying to work within the basic goals that were outlined by the Kissinger Commission.

Mr. MCPHERSON. We think that is true basically, what you are suggesting. Historically, we haven't been. The Trade and Development Program has not had a large amount of activity, at least as compared to some other areas in Central America. There have been some difficulties in getting as many programs there as we wanted, but in fact, in recent months, we have really decided what you have suggested, namely, that both for the Caribbean and for Central America, we need to have more work done. It is a nice complement to the CBI, and it would make sense to pursue that.

Christian Holmes may want to comment on that in more detail.

Mr. HOLMES. We are moving very much in that direction. Our goal is to try to target the program on projects where there is a strong chance that the project can be financed and the feasibility study is positive. Project finance is more scarce in the Caribbean basin than it is in East Asia.

On the other hand, this is a foreign assistance program, and it is there to meet not only commercial objectives, but foreign policy objectives. With Peter's help and others, we are reorienting some of the criteria, and trying to move aggressively into the Caribbean basin.

Senator KASTEN. But the justification material does not indicate that. Is that where you are going in the next couple of years, or are you saying that we are moving there right now.

Mr. MCPHERSON. We are moving this year.

Mr. HOLMES. In the testimony, Mr. Chairman, I did state that the two areas of emphasis would be East Asia and the Caribbean basin. It may not be as clearly stated in the congressional presentation, but it is in the testimony.

Mr. MCPHERSON. This is a rapidly moving operation. This is a relatively recent decision.

Senator KASTEN. Looking at this document showing over the last couple of years, there is one project in Costa Rica, but the Bahamas, Brazil, Cayman Islands, Haiti, Mexico, Venezuela, Uruguay, zero.

Mr. HOLMES. Mr. Chairman, you are looking at the functional categories. Where you are looking at the grand total for each year, 1981, 1982, 1983, and 1984, we have operated at roughly $1 million a year in this area. It has not been zero in any of those years.

The point that Mr. McPherson stated is that we are going to change it, we are going to do more there. I just want to explain to you that the reason this program has worked is that it has been able to generate export from the United States, it is tough to find projects to finance in the Caribbean basin without adjusting our criteria, but you are going to be pleased with the results.

Senator KASTEN. The subcommittee is pleased with what you are doing, and we commend you for the work that you and Chris and others are doing. It just seems to me that if you could work a little harder, it might be easier to get a project in another part of the world, particularly the ones in Central America or the Caribbean might in the long run do us all more good.

Mr. HOLMES. I hear you.

Senator KASTEN. That is the direction that we want to go in.

Mr. MCPHERSON. That is what I actually said. It is going to be harder to do those projects, but frankly Chris is running a very effective shop, and we think that with some more directed efforts on Central America and the Caribbean, we can do more.

POPULATION ASSISTANCE AND INVOLUNTARY ABORTION

Senator KASTEN. I just want to ask one final question. I know that Senator DeConcini talked this morning about the population activities. We have had more discussions about it here. The continuing resolution contains the following language: "None of the funds appropriated under this paragraph may be available to any organization which includes as part of its population planning programs involuntary abortion."

Do I understand, then, that you have determined that the UNFPA, the United National Fund for Population Activities does not have "as part of its population planning programs involuntary abortion?"

Mr. McPherson. That is correct.

Senator Kasten. That is your determination.

Mr. McPherson. That is my determination.

Senator Kasten. Nevertheless, you said in response to Senator Inouye that you believe that the People's Republic of China, as part of its policy—I don't want to put words in your mouth—has involuntary or coercive abortion. Is that correct, or is that incorrect?

Mr. McPherson. I would like to restate it, Senator. The People's Republic of China's official policy is that there should not be involuntary abortion or coercion in connection with family planning. It is very clear, and it is what they state, and they have indicated many times publicly that it is their position.

On the other hand, when we look at the situation around the country of China there are numerous reports of such coercion and involuntary abortion, and they are sufficiently widespread in the whole structure of the whole family planning program as such that, despite the official policy, it seems to us that de facto there is coercion, and as such we wish to distance ourselves from that.

As I indicated to the Senator, we do not unilaterally as an executive branch have authority to make that decision. Therefore, we anticipate coming to the Congress in the form of legislation to ask approval not to spend that $10 million on the UNFPA.

Senator Kasten. It is your understanding that that $10 million would be reprogrammed or reappropriated to an area where there is no controversy, but nevertheless going toward family planning where there is no question about coercive or involuntary abortion.

Mr. McPherson. It would be my hope that it would be spent largely through private voluntary organizations as much as possible in Africa.

Senator Inouye. Mr. Chairman, may I ask a question?

Senator Kasten. Yes.

REPORTS ON POPULATION PROGRAM IN CHINA

Senator Inouye. On the so-called reports that you have received, or allegations made, have you had verification of them, or have you just relied upon TV documentaries, newspaper articles, and the like?

Mr. McPherson. No, we have not had verification in the field, but we relied upon a fairly extensive review of newspapers and very carefully prepared reports. Dr. Judith Bannister of the Census Bureau has prepared an extensive study that I found especially helpful in reviewing this matter. It is an unpublished study as yet, but she is an expert on Chinese demographic materials and information, and I found it, as well as others, very helpful.

There is at this juncture voluminous material about this, and the general conclusion is that because of the way the family planning program is structured, because of the quotas and the goals, and that kind of thing, and because of the responsibility that local officials have to effectively produce those quotas of new births, or to hold them to certain numbers, that de facto this coercion comes about.

Senator INOUYE. Yet, in a documentary that I have seen, they would cite as a goal so many children.

Mr. MCPHERSON. Yes.

Senator INOUYE. They were interviewing several families that exceeded the number, and I don't suppose that they felt coerced. They were not placed in prison, or special work gangs.

Mr. MCPHERSON. I think the pattern is clearer in some parts of China than others, but it is sufficiently widespread, in our judgment, so as to cause us—I have tried to be fairly cautious in my language. I don't think that we can make any absolute judgment, but what we can say, I think, is that there is enough evidence to cause us real concern, enough to ask Congress that we distance ourselves from this problem.

We have a very important family planning program, the kind of planning program that is doing a good job around the world, and I believe that the American public will want us to keep that as traditional family planning, noncoercive, nonabortion, and if we do that, I think that this program can continue to grow and strengthen. If we don't keep it carefully restricted to the kind of activity that has gone well in the past, this program will get in trouble. It will not continue to have the kind of widespread public support. Hence, day by day I am balancing these forces. In my mind I am not sure that we have sold it to everybody in the country at this juncture, but in my mind we have the right balance.

Senator INOUYE. I am correct to assume that this finding has been approved by OMB and the State Department, otherwise you won't be able to submit.

Mr. MCPHERSON. I speak for the whole administration in not disbursing the last $10 million to UNFPA. The request from me is formally at OMB, but there is widespread knowledge that I was in effect going to announce it, and that I was submitting it to OMB.

Senator INOUYE. Thank you.

SUBMITTED QUESTIONS

Senator KASTEN. This concludes our hearing for today. Members of the subcommittee have already submitted questions for the record, and there may be some additional questions. We would ask that you get those answers back to us within roughly 2 weeks.

[The following questions were not asked at the hearing, but were submitted to the Agency for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR KASTEN

POLICY REFORM LINKAGE TO ASSISTANCE LEVELS

Senator Kasten: Since policy reform efforts are often not well received by the recipient governments, how closely are A.I.D. and the State Department willing to link policy reform with future assistance levels?

Mr. McPherson: One of the principal tenets of this Administration's foreign assistance policy is that the formulation of appropriate policies by developing nations is central to their economic success and longer term political stability -- generally more important than donor assistance. Thus, we try to build into our program planning support for these economic policy changes needed to reduce immediate economic problems and encourage longer term growth.

In that regard, we recognize that our foreign assistance can exert a positive influence on policy reform and consequently we do link the programming of our foreign assistance support for policy reform in recipient countries.

In setting country assistance levels through the integrated budget process, we give careful consideration to important foreign policy priorities such as the relative strategic and political importance of the country to the United States, the extent of the country's need for assistance, and the actions of other bilateral and multilateral donors. At the same time, we carefully consider the economic problems confronting a country and the extent to which their resolution requires policy reform. Where possible, once funds are programmed we seek to use those funds to support progress on those reforms needed to resolve fundamental economic problems.

INTER-AGENCY INTEGRATION IN POLICY REFORM EFFORTS

Senator Kasten: What steps do you feel AID has taken to better integrate the views of the Departments of Agriculture, State, and Treasury into its policy reform programs?

Mr. McPherson: There are several. At the Embassy level, the full Country Team -- including State Department staff and the Agriculture Attache -- is closely involved in the development of the Country Development Strategy Statement (CDSS) through which AID develops its overall long-range strategy. This includes plans for policy reform. The CDSS is approved by the Ambassador prior to its submission to AID/Washington. We have, this year, specifically asked that each Mission comment on possibilities for policy dialogue within its country program.

To increase inter-agency coordination of program levels and plans for program content, including program reform, the Reagan Administration has strengthened the integrated budget process through which representatives of AID, State, and Agriculture as well as others, participate in the development of budget levels to meet foreign assistance program objectives including policy reform on a country-by-country basis.

Similarly, representatives of State, Agriculture and Treasury are involved in AID/Washington's inter-agency review and approval of the CDSS.

Through the inter-agency approval of apportionments of ESF, during implementation of the annual operating year budget, State, Agriculture and Treasury staff also have the opportunity to participate in decisions on allocations to achieve program reform objectives.

All PL 480 Title I, Title II and Title III programs are reviewed by formal sub-committees of the inter-agency Development Coordination Committee (DCC) of which State Department, Treasury, and Department of Agriculture representatives are members, in addition to AID. Policy reform measures, and the use of PL 480 to achieve them, are discussed in these sub-committees as programs are presented for implementation approval. Another sub-committee of the DCC reviews all multilateral aid on a project-by-project basis.

The Presidential Agricultural Task Forces have been used to encourage market- and trade-oriented policies in several countries. AID has worked closely with USDA to nominate team members and brief the members before departure.

COORDINATION OF POLICY REFORMS

Senator Kasten: How can AID be confident that it is advocating the proper reforms when, as the GAO report noted, many Missions are not coordinating their efforts with the major bilateral and multilateral African aid donors?

Mr. McPherson: Since the issuance of the 1983 GAO report citing problems with policy reform in Africa, the Agency has taken a number of steps to improve the coordination of its policy reform plans with those of other donors.

The agency-wide guidance for development of the Country Development Strategy Statements, which form the basis for AID policy reform objectives in each recipient country, gives explicit attention to the need to assess the degree of influence the donor community has, or could have, on policy formulation and implementation. Further, it specifically directs Missions to set strategy within the context of total host country/other donor effort directed at the problems on which the Mission focuses.

Along that same line, the guidance for preparation of annual budget submissions has been expanded to require Missions to develop an action plan laying out a policy dialogue agenda and detailing the specific steps needed to achieve the specific objectives, including donor coordination, which are spelled out in the CDSS.

In addition, the agency is placing increased emphasis on improving field Mission coordination with other donors and policy level coordination with the headquarters management of other donor aid agencies. In these discussions as well as in our leadership in the OECD/Development Assistance Committee's issuance of guidelines to improve coordination, the United States has stressed the link between aid effectiveness, policy reform in LDCs, and the need for donors to be consistent in support of such policy improvements. Similar concerns have guided AID efforts to encourage improvements in the IBRD Consultative Group and UNDP roundtable processes.

To respond to the special problems with donor coordination in policy reform efforts in Africa, AID's Africa Bureau has set in place processes to monitor and respond to policy issues. The Bureau now monitors the specific contributions made by AID and other donors through policy dialogue and assistance programs and conditionality to identify and support needed policy reform actions. Results of this monitoring feed into formulation of program conditionality.

An established inter-agency mechanism is also in place to coordinate U.S. government participation in international donor coordination efforts, such as World Bank-led Consultative Groups. These coordination efforts have had positive results, as evidenced by the recent Consultative Group meeting on Senegal. The Government of Senegal has now produced, jointly with its donors, a very promising economic program. Major donors, including ourselves, are currently collaborating in determining which pieces of the structural adjustment program each will support.

OTHER DONOR VIEWS ON POLICY REFORM IN AFRICA

Senator Kasten: Despite our past disagreements over the economic policy initiatives proposal, there has been no disagreement between you and this subcommittee on the importance of policy change for development in Africa.

What are the views of the other donors on this question, both bilateral and multilateral?

Mr. McPherson: The importance of policy reform in Africa is now part of the revealed wisdom of all major donors, including those who were reluctant to push policy reform programs in the past. The clearest indicator of this fact is the widespread endorsement of, and participation in, the World Bank's Special Facility for Sub-Saharan Africa. More than $1.1 billion was pledged to the facility including $746 million of direct contributions and $400 million of special joint financing. Among the fourteen donors participating in this program are France, Italy, Finland, Denmark, Austria, Canada, Sweden, Norway, Germany, the U.K., and Japan.

It is not self-serving to believe that the African Economic Policy Reform Program was the seed of which the current Special Facility is the blossom.

OVERCOMING MANAGEMENT PROBLEMS IN THE SAHEL DEVELOPMENT PROGRAM

Senator Kasten: Over the last couple of years we have discussed at some length the management problems associated with the Sahel Development Program. Are you confident that those problems are now behind us?

Mr. McPherson: We appreciate the concern you have had in this important area and believe that our discussions with you on the subject have been very helpful. We have taken a number of important steps to overcome problems concerning program development and management, financial management and staffing which have been associated with the Sahel Development Program in its formative years.

Regarding program development and management, A.I.D. developed and approved in 1984 a revised regional development strategy that stresses a focussed program on priority sectors, limiting new starts, and weeding out initiatives that have not succeeded. A.I.D. has given greater emphasis to non-project assistance in order to reduce staff and management burdens. We have emphasized strengthening institutional development and promoting policy and structural reforms in cooperation with other donors and the Sahelian nations, concerted actions which are essential for economic growth and for absorption of development assistance.

Regarding financial management, A.I.D. has undertaken measures to assess carefully the capacity of the host countries to manage A.I.D. resources before funds are made available to the foreign governments for disbursement. In addition, A.I.D. began in 1982 a regional project to strengthen the host countries' capacities to manage donor resources, particularly the local currency components financed by A.I.D. and other donors. I am pleased to note that a recent General Accounting Office audit favorably mentioned the efforts we have undertaken to strengthen financial management in the Sahel.

Regarding staffing, a senior consultant visited the Sahel in 1984 to assess the kinds and mix of staff A.I.D. needs to manage effectively its Sahel portfolio during a period of staff and budget constraints. A.I.D. has developed a plan to reduce staff assigned to the SDP over the next two years and to use more effectively contractors, local and third country nationals, and Private Voluntary Organizations. In Chad for example, PVO's such as Africare, CARE and VITA (Volunteers In Technical Assistance) carry a major role in implementing the A.I.D. program.

FY 1986 AFRICAN ECONOMIC POLICY REFORM PROGRAMS

Senator Kasten: You are requesting $75 million for the economic policy reform program under the economic support fund.

You mention in your statement that A.I.D. has had some success with policy reforms in such countries as Zambia, Somalia, and Uganda. Can you give us some specific examples of the types of reforms you are talking about, how the economic support funds were used in these cases — and, what other countries are you working with?

If we appropriate the $75 million for FY 1986, how will you use it, and in what countries?

Mr. McPherson: We, in concert with the World Bank, have used ESF funds in Zambia to encourage the government to raise producer prices for most agricultural crops. This has been very important in increasing agricultural output even in a time of reduced rainfall. The funds financed importation of fertilzer. In Somalia, we have been working with the Government to reduce food subsidies which they cannot afford. The ESF funds are used to import spare parts, agricultural machinery and raw materials once the policy framework is in place.

We also have pursued policy reform programs in other countries using DA, ESF and PL 480 resources. Such programs are active in Senegal, Niger, Mali, Kenya, Liberia, and Zimbabwe. Some of the reform programs are macro in nature, dealing with exchange rate issues, fiscal policy, and trade policy; others are more sectoral, concentrating on producer prices, subsidies, market liberalization, privatization of public enterprises; still others are micro, dealing with improvements in budgeting or accounting, in increased user fees for certain services, on improved efficiency of service delivery.

We are still in the early stages of thinking about the FY 1986 African Economic Policy Reform program. We will certainly use it in the same way as we are planning to use this year's moneys. The only country about which we've begun to think seriously for next year's program is Senegal, which is making major advances in liberalizing its economy after years of statism and stagnation.

FAMINE RELIEF TO AFRICA

Senator Kasten: As a result of a 2-year drought, Africa is experiencing its worst famine in recent history. The U.S. has responded by providing $172 million of emergency food aid to Africa in Fiscal Year 1984. However, untimely approvals of supplemental appropriations and the 3 to 5-month lag in delivering food aid after Congressional approval has raised the issue of whether the U.S. is responding in a timely fashion with sufficient quantities of emergency assistance to avert mass starvation.

What has AID planned or done to predict food emergencies in Africa more effectively in order to give AID and other donors more time to respond?

Mr. McPherson: As part of the hunger initiative last December the President announced the formation of an interagency committee to address the question of food needs assessment. By tapping the resources of the various agencies, National Oceanographic and Atmospheric Administration (NOAA), United States Department of Agriculture (USDA) and National Aeronautics and Space Agency (NASA), a basic methodology is being developed to better anticipate food production shortfalls and their likely magnitude. The committee intends to issue an annual report on global food needs with quarterly updates for those countries in which significant food production shortfalls are developing.

The Agency for International Development (A.I.D.) is moving ahead on several fronts to improve our assessments of food availabilities and needs in Africa. We are improving both access to and the quality of information on food needs.

We are developing a field manual which will enable A.I.D. field missions to make more timely, more systematic, and more accurate assessments of food needs in individual African countries. The methodology will use existing data on production, marketing, imports, and prices, among other variables, to determine food needs. It will also employ existing satelite and meteorological information for earlier, better predictions of shortfalls. This manual is to be field-tested during the coming cropping seasons.

A.I.D. is also placing more food monitors in affected countries both to determine needs and monitor food distributions. These monitors are to be trained in the food needs assessment methodology.

We are improving communication and coordination with other USG agencies, i.e., USDA as well as other donors --both bilateral and multilateral--to ensure that all donors have accurate, up to date information.

We are beginning to work with specific African countries to help establish indigenous institutional capability in conducting food needs assessments over the longer term.

DROUGHT RESPONSE

Senator Kasten: What has AID planned or done to expedite the U.S. response after emergency food requests have been received from a country in need?

What steps have been taken or planned to expedite the process used to approve emergency food requests?

Mr. McPherson: The Food for Peace Office (FFP) logs in every request immediately upon receipt, and there is a regular follow-up of outstanding actions on pending proposals. Frequently, Private and Voluntary Organization (PVO) proposals are sent directly to FFP/Washington. They have to be approved by the field, so a summary cable is immediately transmitted and a copy of the original proposal is mailed. We follow up regularly to assure a prompt response. Moreover, missions or PVOs occasionally provide incomplete data on emergency proposals, and this necessitates further communication to put together a comprehensive package. All proposals from the field for emergency assistance are acted upon immediately by our program analysts.

In addition, to assure the maximum flexibility of response, we have in Niger and twice in Sudan begun moving emergency food aid before programs have been approved.

In the case of well defined emergency proposals, lag time between receipt of the proposal in A.I.D./Washington and approval by the Development Coordinating Committee (DCC) has been as short as 24 hours (e.g., Mali proposal in November). A more average response time would be in the range of one to three weeks. This rapidity of response frequently leads to U.S. emergency assistance arriving before that of other donors even though it must travel farther.

EMERGENCY SHIPPING PROCEDURES

Senator Kasten: For the most part, the procedures used to procure and ship emergency commodities are the same as those used to ship commodities under the regular food aid program. What steps have been planned or taken to expedite the time consuming process of procuring and shipping commodities to African countries?

Mr. McPherson: For the last several months, the Commodity Credit Corporation (CCC) of the United States Department of Agriculture (USDA) has been purchasing emergency grains, where possible, at the U.S. port of loading instead of drawing from inland stocks. This has produced a time savings of from two to four weeks. For budgetary purposes, this transaction is offset by an equivalent sale of CCC stocks. Additional steps under consideration include the prepositioning of grains, both bulk and bagged, as well as processed commodities at the ports of discharge.

PREPOSITIONING

Senator Kasten: What are AID's plans on prepositioning food in friendly countries in order to improve the U.S. response time? Is this feasible from political, cost, and management standpoints? Are other alternatives being considered, such as prepositioning in U.S. ports?

Mr. McPherson: When authority to preposition was given last summer, the Agency for International Development (A.I.D.) carefully examined how this new authority could best be used to reduce the time necessary for deliveries of foods. It has been determined that a significant level of reserves consistently maintained in the flow of commodities being shipped for Title II programs will insure that there is a buffer that will permit us to meet emergency needs in a timely fashion.

Improvements in procurement procedures for whole grains also have been developed by the United States Department of Agriculture (USDA) which will allow the lead times for deliveries to be reduced by two to four weeks.

The possibility of prepositioning food at U.S. ports was another option that was examined closely. Within the past year USDA obtained authority to purchase food anywhere in the U.S. without having to draw down inventories of the commodity in question as was required previously. With this authority, the amount of time saved by having a stock of food actually in a port is less significant. Indeed, time may be lost as one may well have the wrong food in the wrong port for the country in need. Port storage costs can also be quite high in the U.S. - about $60,000 per 10,000 MT tranche for three months plus opportunity costs. USDA is experimenting with some domestic prepositioning this year, but the results are not in yet.

The new authority has been used to reduce response time four times, once each for Niger and Kenya and twice for the Sudan to begin moving emergency food aid before programs had been approved.

For emergencies such as drought in Sub-Sahara Africa major efforts are being made to anticipate need by better crop forecasting and monitoring of in-country stocks.

Essentially the Agency is prepositioning itself to be able to respond without necessarily adopting the physical prepositioning of food which has a number of drawbacks:

-- High costs and losses are a major factor in long-term storage of foodstuffs in the tropics. Rodent, insect and fungus damage combined with theft and management constraints have resulted in losses that can range from 20 to 50 percent. High warehouse costs are estimated at $150,000 per 10,000 MT tranche for a three month period.

-- Special transport problems include poor or non-existent intra-African communications, irregular coastal shipping schedules and port logistic capabilities that are, under ideal circumstances, not much more than adequate. Under these conditions it might take longer to ship from one African port to another than from the U.S. to Africa.

-- In addition to these physical constraints it is politically difficult - sometimes impossible - to take food out of one needy country to give to another that may be yet needier.

U.S. ASSISTANCE TO AFRICAN COUNTRIES WITH LIMITED LOGISTICAL CAPATILITIES

Senator Kasten: What is being done to assist African countries which do not have the logistical capabilities to absorb the vast amounts of food aid being provided by the United States and other donors?

Mr. McPherson: As the President's Special Coordinator for International Disaster Assistance, I established the Inter-Agency Task Force on the African Emergency (TFAF) in October 1984 to coordinate and expedite the work of all federal agencies, determine an appropriate U.S. Government response and ensure that relief supplies are ordered and delivered in a timely and responsive manner.

A logistics subcommittee was established to review ports, storage and transport systems, determine appropriate actions to resolve bottlenecks and coordinate with other offices/agencies to ensure timely movement of food. AID is very much concerned with logistical assistance to Africa, especially those countries which are landlocked.

More than $21.5 million (61 percent) of the $34 million obligated to date from the International Disaster Account has been for transportation in Africa. This includes $8 million to Transamerica for airlifts in Ethiopia. Over 28 million pounds of food and other emergency relief items on 848 flights have been transported in Ethiopia by Transamerica.

The U.S. Government relies heavily on private and voluntary organizations (PVOs) to deliver food in the affected countries over and above what the host government can transport. Over 36 percent ($12.3 million) of the obligated amount has been for grants to PVOs for delivery of food in African countries. To date, landlocked countries have received approximately $1 million of the total obligation.

On April 4th the President signed the FY 85 supplemental Appropriations Act providing $800 million for Emergency Relief and Recovery for Africa and other purposes. Up to $100 million of P.L. 480 Title II funds may be used to fund inland transport.

A TFAF transport assessment team has visited West African ports and inland transportation networks to identify bottlenecks that are constraints to the movement of food to critically affected countries. The findings are being coordinated with the World Food Program and the host countries to expedite short-term solutions and improve food aid deliveries through the ports of Nigeria, Cameroon, Benin, Togo and the Ivory Coast to the landlocked countries of Mali, Burkina Faso, Niger and Chad.

REACHING THE NEEDIEST

Senator Kasten: Are food commodities reaching the most needy in recipient countries and what does AID do to assure that this is happening?

Mr. McPherson: The Agency for International Development (A.I.D.) mission in each drought-stricken country of Africa works in close collaboration with the host government and the private voluntary organizations to ensure that the emergency food assistance is programmed to the most needy groups. Toward this end, both Embassy and A.I.D. officials supplement reports from other organizations and individuals with frequent assessment trips throughout the country. Once the emergency food has arrived, the actual distribution is very closely monitored, both through frequent on-site inspections and regular reporting, to ensure that the food reaches the intended beneficiaries.

MONETIZATION

Senator Kasten: Monetization of emergency food assistance is based on U.S.-recipient government agreement to sell some emergency commodities at official government prices on the commercial market, with the proceeds used to provide in-country transportation for emergency commodities distributed free. What is AID's policy on monetizing emergency food assistance in Africa and how much occurred in the FY 1984 program? How are the funds derived from these sales controlled to insure their use for agreed upon purposes?

Mr. McPherson: Most of the monetization of Public Law 480 Title II commodities is for the purpose of generating local currency to provide in-country transportation for emergency commodities distributed free. However, sales are also justified in certain other situations; for example, when the drought-affected population has money but no food to purchase.

In FY 1984, of 504,000 metric tons of emergency food assistance provided to Africa, an estimated 219,256, or 43 percent, were monetized.

The funds derived from sales are deposited in special accounts. As spelled out on each agreement with the recipient government, no expenditures of funds from these accounts can be made without the prior approval of the local A.I.D. mission.

RHETORIC AND THE SITUATION IN ZIMBABWE

Senator Kasten: The rhetoric, at least, seems to be getting much worse in Zimbabwe, rather than better. How would you describe the current political situation in that country?

Mr. McPherson: I can comment only on the economic situation. It is for the State Department to comment on the political situation. I would note, however, that in the midst of all the rhetoric there are some positive signs.

In mid-February, for example, Prime Minister Mugabe spoke to a group of commercial farmers in Zimbabwe. He told them that he was not prepared to disrupt the economy in pursuit of socialist goals. He indicated that the Government had accepted the reality of capitalism inherent in agriculture, manufacturing and mining sectors.

In mid-March, speaking at the inauguration of the Zimbabwe Development Bank and the Zimbabwe Reinsurance Corporation, Prime Minister Mugabe underscored his expectation that both would be profit-making organizations. Noting that his government did not view "profit" as a dirty word, he said, "It is the utilization of surplus that we sometimes quarrel with or the avid quest for super-profits associated with exploitation of man by man. However we expect that business concerns should generate a surplus and distribute that surplus for the benefit of shareholders provided that the need for adequate reinvestment is also recognized."

Finally, on March 30, speaking at the dedication of Belvedere Teacher Training College in Harare, Prime Minister Mugabe said, "We have been fortunate to have the generous support of the United States Government to enable us to put into effect our educational innovations here and elsewhere. This imposing college is a living testimony to the continued cooperation between our two countries. Let me take this opportunity to express the gratitude of my government and the people of Zimbabwe for this wonderful gesture. What has been of great significance in our relationship is that, in spite of occasional disagreements on matters affecting the peace of our region, the cooperation between our two countries has remained both amicable and open. Zimbabwe cherishes greatly the kind of working relationship exemplified by Belvedere - where outside assistance comes into help us implement our own ideas in an atmosphere of mutual understanding and respect."

RECOMMENDED LEVEL OF SUPPORT - ZIMBABWE

Senator Kasten: You are recommending the same level of funding for Zimbabwe in '86 as the current fiscal year. Do you believe that their actions warrant this continued level of support?

Mr. McPherson: Zimbabwe has made excellent use of the assistance that we have provided thus far. Primary school enrollment has more than tripled since independence. Agricultural output, although slowed by a three-year drought, has improved dramatically. Up to one million tons of corn in excess of domestic needs is expected to be available for export this year. Prior to independence cotton production was almost exclusively limited to large commercial farmers. Last year more than 40% of a record cotton crop was produced and sold by small farmers. Development is occurring, and it warrants our continuing support.

KENYA POLICY REFORMS

Senator Kasten: Last year you were engaged in extensive negotiations with Kenya in an effort to correct some of that country's policies. What was the result of those negotiations?

Mr. McPherson: A very complex and difficult policy dialogue has been underway for the last two years between the U.S. and Kenya, and in conjunction with the IMF and the IBRD. The thrust of this program has been, essentially, to reduce the role of government in the economy and to allow market forces and the private sector greater influence in the allocation of resources.

The USG and GOK both agree that the long-term objectives of economic reform is to reduce the role of government in Kenya's economy. We only disagree as to the pace of reform; the GOK is more cautious. Recently, conditions precedent to disbursement of the FY 1984 ESF grant in trade liberalization, grain marketing reform, and removal of taxes and duties on family planning materials have been met by the GOK demonstrating willingness to reform. The U.S. and GOK meet regularly to discuss the state of Kenya's economy and reform measures the country will undertake in conjunction with A.I.D. projects and in consideration for balance of payments assistance through ESF and PL 480 Title I.

ASSISTANCE IN SUPPORT OF MOZAMBIQUE'S PRIVATE SECTOR

Senator Kasten: You are requesting an increase for Mozambique over current year funding. You will recall that this subcommittee agreed to limited economic assistance so long as that assistance did not go directly to the government, but to private groups in Mozambique.

Can we have your assurances again this year that the funding for Mozambique will not be provided to the government, but instead for purposes in support only of the private sector in that country?

Mr. McPherson: This year's proposed assistance program for Mozambique will be the same as that undertaken last year. This Private Sector Rehabilitation Program has as its central purpose assisting, nurturing and promoting the private sector in Mozambique. The program has two components, agricultural inputs and technical assistance. The agricultural component provides essential and critically needed agricultural inputs to private sector farmers. The technical assistance component is used to meet Mozambique's critical need for managerial and technical skills to support private sector growth. In sum, the program we have proposed for Mozambique meets the criteria the sub-committee established last year, that is, assistance will be provided only in support of the private sector.

LIBERIA - CURRENT SITUATION

Senator Kasten: Liberia, one of the longest and best friends of the United States in Africa, has suffered economically over the last several years. What is the current situation in that country?

Mr. McPherson: Liberia is undergoing the most serious economic crisis in its history. Between 1980 and 1982, it experienced negative annual growth rates of 4.4% as a result of its heavy external debt burden, poor public investment decisions, the 1980 coup and the resultant flight of capital and human resources and limited demand for Liberia's traditional exports. Export earnings declined by about 10% per year between 1980 and 1983 because of decreased demand, lower commodity prices and the growing strength of the U.S. dollar. Total development spending from domestic and foreign sources dropped from $213 million in 1979 to $76 million in 1984. At present, the economy is essentially stagnant and prospects for improved economic growth are not promising. This trend has had a significant negative impact on the standard of living for most Liberians.

SUDAN'S CURRENT YEAR PROGRAM

Senator Kasten: What is the status of the current year's program for the Sudan?

Mr. McPherson: In the Development Assistance (DA) accounts, $23.345 million in incremental funding for ongoing projects was obligated in December 1984. The remainder of FY 1985 DA assistance is planned for obligation in April ($2 million), June ($855,000) and August ($1.9 million).

In the ESF account, $40 million for the Petroleum Initiative portion of the CIP is expected to be authorized in April. AID/Washington has not yet received the Program Assistance Approval Document for the $71 million balance of the CIP program from USAID/Sudan for review and authorization. It is expected in April. The balance of FY 1985 ESF assistance, $3 million for incremental funding of the ongoing Policy Analysis and Implementation Project, will be obligated in May.

PL 480 food assistance approved or shipped to Sudan so far this year amounts to $202.975 million in Title I wheat, Title II sorghum emergency food relief, and Section 416 assistance, including transportation assistance. This amounts to 854,122 metric tons of food aid. We expect total food assistance to the Sudan this year to exceed one million metric tons.

INCREASE IN MAURITANIA'S FY 1985 FUNDING LEVEL

Senator Kasten: Your FY 1986 justification material for Mauritania shows the FY 1985 funding level at $8,862,000. However, the FY 1985 justification material shows the request for Mauritania at $2,540,000. You have sent a reprogramming request to the Committee for $1,460,000. Are you planning on sending up another reprogramming request for $4.8 million? What for?

Mr. McPherson: As you have noted, $8,862,000 is the FY 1985 funding level for Mauritania as shown in the FY 1986 CP. This is a sizeable increase over the FY 1985 CP level of $3,500,000. Of the $8,862,000, the sum of $5,862,000 is being made available through funds deobligated by A.I.D. in Mauritania in FY 1984. The deobligated funds resulted from termination actions taken by A.I.D. on several projects related to the agriculture and rural development sector. These actions were taken because of the difficulty experienced by A.I.D. in working with these projects and with the former Mauritanian Minister of Rural Development.

The allocation of the $8,862,000 to the AID projects, however, is now being changed as follows:

Project Title	FY 1985 Budget FY 1986 CP Level	 Current Plans
1. Small Project Assistance-AID/PC (682-0232)	$40,000	$40,000
2. Human Resources Development (682-0233)	-0-	1,362,000
3. OMVS Agricultural Research II (682-0957)	1,460,000	1,460,000
4. Rural Roads Improvement (682-0214)	7,362,000	6,000,000
Total	$8,862,000	$8,862,000

No reprogramming request is needed for items 1 and 2 above, as these projects were included in the FY 1985 CP.

As you have indicated, a reprogramming request for $1,460,000 (item 3 above) was sent to the Committee (in December 1984). We are now planning to send to the Congress another reprogramming notification, totaling $6,000,000, for item 4 above (Rural Roads Improvement). We are doing this because a recent reassessment of the roads project indicated a need for additional funds to revise the road standard in order to provide more and better drainage structures and control against road erosion and washouts.

An improved transportation system is needed for A.I.D. to accomplish it's priority goal of providing food security to the people of Mauritania. The roads project is intended to stimulate the development of rural areas by upgrading a critical road network, thereby improving the flow of agricultural inputs to major agricultural production areas and facilitating the marketing of agricultural surpluses which are produced on the Mauritania side of the Senegal river basin.

ASSISTANCE FOR AFRICAN EDUCATION SYSTEMS

Senator Kasten: Illiteracy is high in developing countries. Even though increasing numbers of children are now entering primary schools in developing countries, illiteracy grows at a faster pace -- each day increasing numbers of people are born who will never be able to read instructions for improving crop production, maintaining good health habits, and elevating themselves out of poverty levels of mere existence. What portion of development assistance funds are programmed to improve host countries' education systems -- particularly in Africa?

Mr. McPherson: A.I.D. completely agrees that raising the general level of education is essential for any country's sustained development, especially for the countries in the African region. We have encouraged our missions to view human resource development as a necessary and integral component of all development programs including agriculture, health and population as well as education. Training is a vital component of each project and is usually aimed at "training the trainers" so that our projects have a multiplier effect.

In FY 1985 and FY 1986 eleven percent of total A.I.D. development assistance is programmed for Human Resources (EHR). About four percent supports basic education improvement and seven percent participant training and other human resources development activity. About thirty percent of the total Agency EHR program supports activities in Africa. Approximately forty percent of EHR activity in Africa supports basic education and fifty percent training and other human resources development.

This Administration has increased the Education and Human Resources account for Africa from $25.2 million in FY 1981 to $55.2 million in FY 1986. Additional funding also comes from the ESF accounts and local currency generated by CIPs and PL 480, although we have no specific estimate of how much of the latter goes to education. Basic education is a major thrust of several country programs including Botswana, Lesotho, Swaziland and Zimbabwe.

Senator Kasten: When will developing countries--particularly in Africa--be capable of educating their people (at home) to fill decision-making and skill positions?

Mr. McPherson: For many African countries it will be some time before their own school systems will produce sufficient numbers of educated and trained people to raise the general education level and to fill all decision-making and skill positions. At the same time it is important to note that the African countries have made tremendous strides in increasing the numbers of children in school over the past twenty years.

Fifty-five million students were added to the school rolls between 1960 and 1980. However, 107 million more students will have to be added between 1980 and 2000. These increases will be much more difficult to achieve because of the general economic downturn in so many African countries and the decreasing share of each country's financial resources available for education. Quality may also suffer further as countries stretch already inadequate resources to meet increasing demands for education.

Senator Kasten: What strategy has A.I.D. developed to reduce the absolute need for Africans to be educated abroad?

Mr. McPherson: Our strategy in Africa is that human resource activities, including education, should contribute to the stabilization of African economies and begin to generate jobs through economic growth. We are therefore supporting activities to provide basic education and training so that there will be sufficient numbers of people in the workforce with the requisite knowledge and technical skills. We work to assist countries to use their existing resources more efficiently so that more students can receive a better education. We are assisting countries in identifying specific practices that are wasting resources - both financial and human - and replacing them with more effective instructional and administrative methods. We are also making increasing use of radio and other media to reach rural populations.

However, for top level technical and research professionals, training in the United States will continue to be important both for the quality of training we can provide and for the lasting relationships that are developed.

Senator Kasten: Are any projects/programs designed to eventually fill positions now held by professionals in developing countries with professionals educated/trained at home? Can effective development be accomplished without that occurring?

Mr. McPherson: In all A.I.D. projects training is provided to replace the outside technical assistance, which is only provided as a short-term measure. Ultimately the host country has to develop the professionals and the professional training capacities needed to implement its own development programs. We view our participant training program as one very effective way to educate and train these professionals in respected institutions of higher education in the United States. We have an excellent record of these participants returning to their countries with the appropriate professional skills in a timely manner. While we intend to increase this program over the next several years, we realize that for the long run the only lasting solution is the development of national educational systems in these countries that can educate all the required professionals the countries need.

FOOD FOR PROGRESS

Senator Kasten: The "Food for Progress" initiative is an interesting idea, details of which have been skimpy--can you tell us more about it, and when can we expect specific legislation? Do you intend for this to be a FY 1985 supplemental or a budget amendment in FY 1986?

Mr. McPherson: The President announced a Food for Progress program as a new means to use American food resources to support key Third World countries that have made commitments to agricultural policy change based on free market principles. We will propose a four-year program in which up to 500,000 metric tons of commodities per year will be provided on a grant basis to developing countries selected under criteria established for the program. The Administration will be submitting a legislative proposal for this program shortly which will revise Title III of PL 480 to incorporate the program.

We will propose that the program begin in FY 1986 using available PL 480 FY 1986 resources. Funds for the remaining years of the program would be requested under PL 480 in the normal budget process.

TITLE II NUTRITION GAP - INDIA

Senator Kasten: I know that A.I.D.'s Title II food assistance program to India valued at over $100 million a year is one of A.I.D.'s largest food donation programs in the world. In 1982, the A.I.D. inspector general recommended that since the government of India had attained self sufficiency in food production, the cost and responsibility for this 25 year old program should be phased over to India. A.I.D. disagreed with the inspector general's recommendation, citing a "nutrition gap" that still existed in India. What progress has been made since 1982 in closing this so called "nutrition gap"?

Mr. McPherson: Despite its "market self sufficiency", India's food supplies now meet only 90 percent of minimum nutritional requirements, and 45 percent of the population is still below the Government of India's (GOI) nutrition based poverty line. Following A.I.D./New Delhi's analysis of Maternal and Child Health programs for pre-school children, steps were taken by CARE, CRS and the Government of India to improve the targetting of food to the most vulnerable groups (i.e., malnourished children under three and pregnant and lactating women) and to integrate feeding with other key elements such as nutrition, education and health services. A Development Assistance project was designed to strengthen the GOI's Integrated Child Development Scheme using P.L. 480 Title II rations.

INDIAN GOVERNMENT ASSUMPTION OF RESPONSIBILITY FOR TITLE II PROGRAM

Senator Kasten: At this time, does A.I.D. believe that it is feasible to develop a plan whereby the Indian Government would gradually assume responsibility for the Title II food assistance program?

Mr. McPherson: The Agency for International Development (A.I.D.) believes it is feasible to develop a plan for the Government of India to assume responsibility for the U.S. Title II program. A.I.D. is beginning to develop such a strategy to implement an orderly transition of the Title II food aid program responsibility to the Government of India. The first 5 year plan will allow the program level to decline in a steady, but not precipitous fashion. A $94 million program in FY 86 will decline steadily in the following years.

PHILIPPINES ECONOMIC SUPPORT FUND PROGRAM

Senator Kasten: Do you now have in place the same monitoring and financial procedures for the Philippines Economic Support Program during the second five year period as you did under the arrangement agreed upon by your Inspector General and this Committee on the latter part of the first five-year program?

Mr. McPherson: Essentially, yes. A.I.D. continues to monitor the program closely, through review of financial and implementation records and reports, project and program evaluations, extensive on-the-ground inspections and implementing advice by a team of no less than four American and 14 Filipino engineers and project development officers, and independent audits by our Inspector General's Office. An extensive management information system has been established to monitor construction progress and payment of contractors. We also have the right of refund for any monies not utilized according to agreed-upon purposes. The last ESF program audit, specifically of the schools and project design projects, scrutinized the effectiveness of internal controls over local currency disbursements for sub-project activities. There was no evidence to suggest misappropriation or misapplication of funds.

The Philippine Government's management arrangements for the ESF program have changed somewhat. The planning, administration and monitoring secretariat for the program was moved last fall from the Ministry of Human Settlements to the Office of the President. Mrs. Marcos has continued as chairperson of the ESF policy council, although co-chairmanship now rests with the National Economic Development Authority, the principal government planning body.

BURMESE NARCOTICS

Senator Kasten: Burma continues to be a major supplier of illicit narcotics and they have not been very cooperative on this issue, according to those who watch this tragic problem.

Many of my colleagues believe we should be tougher with such countries by cutting off their aid program. Why shouldn't we do so in this case?

Mr. McPherson: In our view, the Burmese Government has been extremely cooperative and increasingly effective in efforts to interdict the flow of narcotics from Burma.

Opium is produced in thousands of small fields in remote areas of Northern and Eastern Burma, roughly the size of Louisiana. Numerous insurgent groups such as the Burma Communist Party are using the illicit narcotics trade in this area to support their activities. The Burmese Government has minimal control in most of the opium producing areas due to the remote and harsh terrain, the existence of few roads, and the Burma Army's shortage of modern equipment.

Notwithstanding these limitations, the Burmese Government eradicated over 11,000 acres of poppy in the 1983/1984 Burmese crop year and has reported substantially greater eradication in the 1984/85 season, representing the highest annual destruction reported to date. In addition, the Government has carried out frequent army and police operations to destroy refining facilities, arrest trafficking insurgents and disrupt the smuggling of refining chemicals into the country.

To assist the Burmese Government in this task, the U.S. Government, through the Department of State's Bureau of International Narcotics Matters (INM), has provided funds for maintenance support for a small fleet of helicopters and fixed-wing aircraft supplied under the 1974 bilateral narcotics cooperation agreement, maintenance of the communications network and to meet other related needs. The U.S. Government is also providing training and equipment to assist the Burmese Government to improve its narcotics enforcement capabilities.

This past December the Burmese Government conducted an aerial poppy eradication test program using a Thrush aircraft provided by INM. The Government has now agreed to proceed with an expanded aerial spraying program starting with the 1985/86 crop season.

Given Burmese efforts at control of the narcotics trade as well as their receptivity to U.S. Government assistance in this regard, we believe it would be inappropriate and counterproductive to suspend the A.I.D. program. In fact, the A.I.D. program has contributed to strengthening U.S./Burmese Government cooperation in general, as clearly manifested in the close collaboration of both governments in dealing forcefully with the narcotics problem.

THAILAND FUNDING ACCOUNTS

Senator Kasten: How do you explain the erratic funding for Thailand by functional account? (Agriculture in FY 84 was $14 million, in FY 85--$1.6 million, and in FY 86--$16.6 million; health was $7.7 million in FY 84, $2.2 million in FY 85, and only $200,000 in FY 86; Selected Development Activities was $1.2 million in FY 84, $18.3 million in FY 85, and $4.2 million in FY 86.)

Mr. McPherson: We are in the process of restructuring the A.I.D. program in Thailand. The sharp differences in functional account levels between FY 1984 and FY 1986 reflect programmatic changes that have resulted from our program focus shifts.

Thailand has sustained high growth and development over the past two decades, with the economy growing at an average of over 7 percent per year. This progress has placed Thailand in the ranks of the emerging middle-income countries. As a result, the economy is undergoing rapid transition from a predominantly agricultural nation to an increasingly industrial one. The programs A.I.D. supports in Thailand must subsequently recognize that changed status and address the problems Thailand now faces.

The major new foci of our A.I.D. program in Thailand in FY 1986 will be science and technology (S&T), and rural industrialization. While Thailand has the beginning of a strong S&T base, A.I.D.

assistance will be aimed at helping to solve major scientific and technological problems affecting Thailand's development, and to overcome policy and institutional constraints. Scientific and technological problems in both agriculture and health will be addressed under this planned project. With respect to rural industrialization, rural employment generation is expected to be the most significant issue this decade in Thailand. A significant portion of rural industrial growth will be linked to agriculture and agro-processing.

Initial funding for the S&T project is provided in FY 1985 under the Selected Development Activities (SDA) account, which we believe is the appropriate overall funding category for a multi-sector project of this kind. There is no funding anticipated for this project in FY 1986, so the SDA level drops off in FY 1986, but an SDA funding input will be needed again in FY 1987. The rural industries and employment effort will begin in FY 1986 under the agriculture account, explaining the jump in that account compared with FY 1985.

FY 1984 was the last year of significant bilateral funding of traditional agricultural programs through the agriculture account. Agricultural account funds drop sharply in FY 1985 as SDA funds are applied to the S&T project. Agricultural account funding will resume in FY 1986 under the Rural Industries project as explained above. Similarly, we are scaling back new bilateral funding in the health account, although we will continue with centrally funded programs. This decision was based on a need to concentrate our resources and upon our review of a health sector assessment, which took into account the relatively favorable health care status of the Thai population; the excellent progress the Ministry of Public Health has been making in combatting major public health problems such as malaria, diarrheal diseases and malnutrition; and the absence of a clearly identifiable need for a major USAID health intervention at the present time.

AGRICULTURAL FUNCTIONAL ACCOUNT FOR PAKISTAN

Senator Kasten: You are cutting programs under the agricultural functional account for Pakistan by two-thirds. Why?

Mr. McPherson: Although Development Assistance funding for Pakistan's agriculture sector will decrease by $25 million in FY 86 due to relative scarcity of DA monies, nearly $100 million in Economic Support Funds will be devoted to agriculture and rural development.

Our planned investments in the energy sector will increase markedly in FY 86 as we help Pakistan to develop its indigenous energy reserves to lessen its dependence upon imported oil, shore up its balance of payments, and speed rural electrification.

RECENT FIGHTING ON THAI BORDERS

Senator Kasten: Are you already contemplating a change in the amount of the Thailand program as a result of the recent action on her borders?

Mr. McPherson: We budgeted $5 million in FY 1985 from the ESF account to assist Thai villagers adversely affected by the large number of refugees who have entered Thailand as a result of fighting in Cambodia and Laos. These funds were obligated in January, bringing the U.S. contribution for this program to $24 million since August 1980. When the grant was signed in January, the Thai media stressed the timeliness of the U.S. contribution, linking it to the fighting that was taking place at the time along the Cambodian border.

At present, the Affected Thai program provides assistance to 162 Thai villages along the Cambodian border, assisting an estimated 87,000 Thai villagers. Along the Lao border, the program assists 241 villages with a population of 145,000. Depending on the intensity of fighting and refugee movements, Thai villages are either completely relocated away from the border area or economic assistance is provided. Economic assistance activities include road repair, construction of dams, wells, irrigation systems, bridges, and drinking water systems. Medical supplies are provided, agricultural projects are undertaken, and vocational education services are also made available.

We know that the Vietnamese dry season offensive this year against the non-Communist Cambodian resistance forces has been intense. As a result, the flow of Cambodian refugees this year has increased. We believe the Thai will need to substantially increase its financial support to the Affected Thai villages. Already there are signs that funds available to the program, including the $5 million we contributed earlier this year, will not be sufficient to meet all requirements. The Thai are developing definitive estimates of the added funding requirements the Affected Thai program will face as a result of the current fighting on the border. We have received an official Thai request for additional funding support for the program, and are looking for ways to respond positively to it.

BILATERAL ASSISTANCE FOR FIJI

Senator Kasten: You are requesting a program for Fiji for the first time in many years. Why?

Mr. McPherson: Although A.I.D. has maintained a modest, non-bilateral regional program in the South Pacific since 1978, which includes Fiji as a recipient, FY 1986 is the first year for which we have requested a separate bilateral assistance program for Fiji. The $1.5 million country program request consists primarily of Economic Support Funds, because it responds to the very strong pro-Western stance Fiji has taken on a number of crucial regional and global issues. Fiji currently has a large portion of its military stationed as peacekeeping forces in the Sinai and Lebanon. It has supported the U.S. on Grenada and Afghanistan, and co-sponsored a condemnation of the Korean Airlines massacre. At the U.S. request, Fiji monitored three Micronesian plebiscites during 1983; and in 1983 Fiji re-opened its ports to U.S. nuclear-powered, nuclear armed vessels. When Prime Minister Ratu Mara visited the White House in November 1984, President Reagan agreed to request a small bilateral assistance program for Fiji in FY 1986. Although the precise nature of the new program has not yet been determined, the program is expected to consist of projects in agriculture and health.

ASIA BUREAU MANAGEMENT EXPERIMENT

Senator Kasten: In November 1983, A.I.D.'s Asia Bureau initiated a management experiment with a goal of "establishing a more dynamic relationship between headquarters and field missions and strengthening the Agency's overall programming process." What is the current status of this experiment? Has it been successful?

Mr. McPherson: The Asia Experiment is still in process, but indications are that, even at this early stage, it has been successful in improving the programming and management procedures in the Bureau. After discussions with Asia Bureau staff and the mission directors, the Bureau decided to focus on five management issues: (1) improving the Country Development Strategy Statement (CDSS) preparation and review; (2) streamlining Project Implementation Documents (PID) preparation and review; (3) simplifying the Annual Budget Submission (ABS) guidance; (4) developing a means for assessing mission performance; and (5) augmenting mission implementation authority. So far this year, the Asia Bureau has held two strategy and program reviews for Sri Lanka, India, and four program reviews for Nepal, Bangladesh, Pakistan and Indonesia. Mission assessments have been completed in the Philippines and Bangladesh.

Senator Kasten: Have the experiment's successful components been implemented in the Agency's other regional bureaus?

Mr. McPherson: We are seeking to improve programming and management throughout the Agency. Staff in the other three regional bureaus have reviewed the programming innovations in the Asia Bureau and as developed elsewhere, and have adopted them to apply to the individual needs of their Bureaus. Guidance has been issued laying out modifications in the programming system for all bureaus. Management and programming reforms, based on the Agency policy of decentralization of authority to the field, are now being finalized in the other three bureaus. There will be adjustments by region, but the basic elements of the revised system will have similarities in all regional bureaus.

Senator Kasten: Since the Agency's bureaus and missions vary in size and expertise, what safeguards are planned to insure that overseas offices are not given responsibilities and authority that exceed their capability?

Mr. McPherson: In the process of redefining the relationship between geographic bureaus and field missions, the Agency is putting in place new management devices to ensure adequate oversight and accountability. Appropriate control will be maintained by conducting portfolio reviews and mission operational assessments. More specifically, delegation of authority to the field will vary among the bureaus depending upon the mission staffing capabilities.

Senator Kasten: What savings can be attributed to the Asia Bureau experiment? For example, are fewer people now involved in the programming process? Are documents reviewed and approved faster?

Mr. McPherson: It is too early to say definitively what staff savings can be attributed directly to the Asia Bureau experiment. However, as a result of the increased authority to approve project implementation documents in the field, fewer PIDs are reviewed in Washington, saving some Washington staff time. In addition, mission staff time savings stems from the fact that Washington is requiring less in-depth data on each project and is, instead, relying more on mission judgment.

Senator Kasten: As a result of the experiment have there been shifts of personnel from the Asia Bureau to its field missions?

Mr. McPherson: As a whole the Agency will have a larger proportion of its staff in the field. Because of reduced availabilities of operating expenses, it must decrease its Washington staff by 235 employees by the beginning of FY 86. Although no official new staffing levels have been announced for the bureaus, the Asia Bureau anticipates an overall reduction of staff. Most of the reductions will be in Washington.

MANAGEMENT OF THE CENTRAL AMERICAN PROGRAM

Senator Kasten: As you might expect, the first issue I wish to address is the management difficulties the Agency has been experiencing vis-a-vis the Central American program.

Subcommittee staff and others have been examining this problem over the last several months, and as you know have found many serious dificiencies. You have responded to some of these.

The basic question we continue to have is whether or not you now have in place the management tools necessary to match the commitment given to the Central America program by the White House and the Congress?

Does your Agency's bureaucracy now understand that the Central American program is to be your Agency's top priority?

Are there any management tools you lack and which you would like to have in order to insure speedy and effective implementation of the Jackson Plan?

Mr. McPherson: The Central American program, along with those related to the African famine, are AID top priorities. I have officially and formally notified the heads of relevant AID bureaus of these priorities.

With respect to management tools, I believe we are very close to having in place the tools to manage the commitment of the Congress and the White House to help resolve the problems of Central America. For example, we have:

- completed all but a few actions to have in place by this summer all of the additional personnel recommended by the Dwight Ink task force;

- increased the authority of our Central American field missions to approve projects in the field with a dollar value of up to $20 million;

- obligated all of the FY 84 supplemental appropriations on schedule;

- installed a computerized tracking system which, when fully operational, will on a monthly basis show the economic assistance programmed against the goals and recommendations of the NBCCA report and the status of implementation; and

- established a policy that AID Washington officials shall meet with Central American Mission Directors a miniumum of three to four times per year to review, as a group, progress under the Central America initiative.

Some additional steps to enhance our managment capability on which we are working include:

- Improvement in the quality and mix of our staff in the field and in Washington. Problems are not large in this area, but there is room for improvement and we are working toward that end.

- Improvement in our oversight capability through relocation of additional staff for the Inspector General Facility in Central America. Seven people in language training should all be on board in Central America before the end of the summer.

EL SALVADOR HEALTH SYSTEMS PROJECT
EMERGENCY PROCUREMENTS

Senator Kasten: I have a couple questions regarding the Health Systems Vitalization project in El Salvador, about which Senator Inouye and I wrote you on February 28.

In your reply late last week, you state that only a small amount, just over $600,000, project funds was specifically required for emergency medicines and health supplies. All of the records that we have with respect to this project indicate otherwise. Nowhere is there any indication that only a small amount was for emergency medicines and health supplies. In fact, the documents clearly show that all of it was justified on that basis.

Do you have any other documentation from that time which supports the statement in your letter?

Mr. McPherson: I understand your need for clarification on this point. Our reprogramming notifications on the El Salvador Health Project in 1983 failed to distinguish clearly between emergency procurement of medicines and supplies most urgently needed by the health system, and subsequent procurement of critical, but non-emergency supplies. However, we had intended a two-pronged procurement strategy from the start.

The Project Paper (PP), which serves as the basis for review and authorization of project funding did make this procurement strategy clear. For example, the procurement plan on page 124 of the PP referred to "emergency procurement of a short list of selected items" needed urgently by the Government of El Salvador and non-emergency procurement, for which "the arrival date is not as criticial as that of the emergency procurement." Since PPs are provided to Congressional committees only upon request, I do not believe your staff had the opportunity to view the procurement within the context of the plan contained in the project paper.

Apart from the 1983 reprogramming notifications, we attempted to convey this procurement strategy in other ways to Congress. Testifying before a House Appropriations Subcommittee hearing August 3, 1983, Acting Assistant Administrator Marshall Brown stated that the $25 million requested for the project "will run over a two-year period, the actual expenditures. We will be buying supplies for them to supply a 24-month period. We are obligating the funds on a different schedule, but it is to cover a 24-month expenditure period." (Reference: Foreign Assistance and Related Programs for 1985, Hearings before a Subcommittee of the Committee on Appropriations, House of Representatives, Ninety-Eighth Congress, Second Session, page 79.)

In a letter from Kelly Kammerer, Director of Legislative Affairs, to Chairman Long on February 9, 1984, we tried to distinguish between emergency procurement and subsequent, less-urgently needed procurement. We stated that "the General Services Administration is procuring a list of basic medicines and supplies valued at $587,000, which the health system needs quickly." Further that "additional commodity procurement valued at

$9.8 million will be initiated in the next two-three months," much of that through host-country procurement. Even this communication was not as explicit as it should have been on the difference between emergency and non-emergency procurement.

We provide this clarification to assure you that the statements in my letter to you of March 28, 1985, regarding procurement strategy are consistent with our original plan. We still, of course, bear the blame for delays in carrying out that plan and less-than-precise description of our procurement strategy in the reprogramming notifications.

Senator Kasten: You indicate that the remedial action which you are taking is to transfer the manager of the health project out of El Salvador, but there is no reference to any fault here in Washington. I suppose the reason for that might be that the Bureau helped you draft this reply. Are we to believe that no one in the Bureau in Washington was at fault on this matter?

Mr. McPherson: As I stated earlier in answering Senator Inouye's questions, project implementation responsibilitiy rests with our field missions. Washington's role is limited to monitoring. While I do not believe there has been "fault" in Washington, the Latin America Bureau has instituted an improved project monitoring and oversight system, and has established a project oversight committee which is in the process of assisting the Mission to prepare a detailed implementation plan, specifying key action dates. The Mission will then be asked to send monthly status reports until termination of the project.

LATIN AMERICA

Senator Kasten: Your overall operating expense account for fiscal year 1986 is less than the current year. Can we assume that none of this reduction will be applied to the Central American region?

Mr. McPherson: That is correct. In fiscal year 1986 we will be providing the Central American missions with $16.2 million, an increase of $1.6 million over the fiscal year 1985 level.

PERU - ECONOMIC ASSISTANCE AND UN LEBANON VOTE

Senator Kasten: Peru is another of those countries which did not support the United States in the Security Council despite terrorist threats to American lives. You are suggesting a near doubling of their economic assistance programs. Why should the American taxpayer support this country in the wake of that vote?

Mr. McPherson: Peru is beset by a major and systemic economic crisis. It is suffering a severe economic recession fed by, among numerous problems, low prices for primary export products and heavy debt burdens, with the associated loss of external credits. These problems were exacerbated by climatic disaster in 1983; taken together, they highlight the need to address fundamental internal structural inefficiencies if self-sustaining growth is to be achieved. The assistance we are proposing for FY 1986 is designed to assist in this and, by improving prospects for economic recovery, to buttress Peru's new democracy and promote a range of U.S. interests.

We consulted closely with the Peruvian government during the Security Council debate on the Lebanon resolution. Peru shared our concern about the terrorist threat to Americans but apparently weighed its vote in light of the overall trend of UNSC voting on the resolution and moved from abstention to support only after changes by other UNSC members made our veto inevitable in any case. We expressed our unhappiness with Peru's support for the resolution at the highest level. Peru, in its UN Ambassador's statement at the time of the vote, strongly condemned terrorist blackmail attempts.

We believe it would be inappropriate to tie efforts to promote U.S. interests in Peru to this single disagreement. In general, Peru has been among the more supportive Latin American UN members, voting the same as did we on a variety of UNGA issues identified by Ambassador Kirkpatrick as key votes, ranging from Afghanistan through chemical weapons to Israeli credentials, in spite of contrary Soviet lobbying. We believe our displeasure at Peru's Lebanon vote should not block us from acting to protect and advance our many and varied interests and objectives, including the strengthening of democracy through economic assistance at this critical time.

INTERNATIONAL EXECUTIVE SERVICE CORPS ACTIVITIES

Senator Kasten: Some time ago, you indicated to me that the Agency would be utilizing the International Executive Development Program to a larger extent following that organization's very successful programs in Costa Rica and Jamaica. What is the status of that commitment?

Mr. McPherson: The International Executive Service Corp (IESC) continues to provide an important source of technical assistance and a mechanism of technology transfer for countries of the region. The central grant for 1984-87 is $24 million ($6 million per year) with additional 1984 Latin American Bureau (LAC) bilateral grants of $492,400 for development activities in Ecuador, Honduras, Jamaica and El Salvador.

In addition to these on-going activities LAC has committed $250,000 FY 1985 grant funds to continue IESC activities in Brazil and Mexico.

An important new 1985 initiative to be undertaken jointly with IESC will be the development and operation of a Joint Venture Feasibility Fund (JVFF). Some $700,000 in grant funds will link LAC country and U.S. potential joint venture partners and provide limited seed capital to conduct joint venture feasibility studies. The purpose of the JVFF is to stimulate U.S. and developing country co-ventures. With the IESC as administrator and principal source of consultants for the fund, we expect increased U.S. small and medium business investment in LAC, facilitation of U.S. technology skill transfer and improved coordination between missions and IESC activities.

ECONOMIC ASSISTANCE FOR HONDURAS

Senator Kasten: Please explain the hold-up in economic assistance in the current fiscal year for Honduras.

Mr. McPherson: In providing ESF balance of payments assistance, we seek agreement with the recipient country on a macro-economic policy framework that is conducive to economic stabilization and recovery. We are particularly interested in measures which will stimulate domestic investment and attract foreign capital, reduce fiscal deficits and restrain inflationary pressures, effectively manage debt and promote growth in export earnings.

In March 1985, we reached agreement with the Government of Honduras (GOH) on policy measures which served as the basis for obligation of $72.5 million in ESF balance of payments assistance from the FY 1984 Supplemental Appropriation. Most important were measures to establish a special payments mechanism to promote Honduran exports within the Central American Common Market, begin a process to divest para-statal enterprises, rationalize lumber marketing with an increased role for private firms, reform the tariff structure and replace government sight bonds with issues of longer maturity. The GOH needed time to make these policy decisions and formulate the related administrative actions; hence, the March obligation of FY 84 Supplemental funds. Of these funds, $55 million have already been disbursed.

We have agreed in principle with the GOH that $75 million in FY 1985 balance of payments assistance will be used to support a comprehensive economic program, with particular emphasis on reducing the fiscal deficit and on improving the competitive position of Honduran exports. We are working with the GOH, within the forum of a Joint Economic Working Group, to identify the principal measures to be included in this economic program. The GOH plans to send a cabinet-level delegation to the United States in early May for a meeting of the recently formed U.S.-Honduran Bilaterial Commission. The proposed economic program and timing of an FY 1985 ESF agreement will be key agenda items.

CENTRAL AMERICA REQUEST FOR JACKSON PLAN

Senator Kasten: How does your dollar request level for Central America compare with the assumptions made in the legislation sent to Congress last year for the Jackson Plan?

Mr. McPherson: The FY 1986 request for Central America is somewhat below the level assumed in the FY 1985 Congressional Presentation to implement the Jackson Plan. The FY 1985 Congressional Presentation assumed that an annual average of $1.106 billion of A.I.D.-administered assistance and $95 million of other assistance (Peace Corps, USIA, State Refugee Program) would be provided during FYs 1986-89 to carry out the Jackson Plan. The FY 1986 A.I.D. Congressional Presentation requests $981 million of A.I.D.-administered assistance for Central America, and in separate presentations $73 million of other assistance is being proposed. Thus the shortfall for the FY 1986 request is $147 million. These differences were brought about by the need to exercise restraint in view of the overall budget deficit.

OTHER DONOR ASSISTANCE TO CENTRAL AMERICA

Senator Kasten: Has the United States been able to encourage other donors to increase their assistance to Central America?

Mr. McPherson: We have had partial success in obtaining increased other donor assistance to Central America.

Other donor assistance to the Central American countries, excluding Nicaragua, increased from $352.4 million in FY 1982 to $523.2 million in FY 1984 - up 48%. Of this increase, 97% was rrom the World Bank and Inter-American Development Bank. The governments of West Germany and Japan have indicated their intention to increase assistance programs to Central America in the near future. West Germany initiated an A.I.D. program in El Salvador in 1984. During a Ministerial level meeting between the Central Americans and the European Economic Community (EEC) in Costa Rica on September 28 and 29, 1984, the EEC agreed to increase their support by 50% over the next five years.

PROVIDER OF BALANCE-OF-PAYMENTS ASSISTANCE

Senator Kasten: Given the large amounts of balance-of-payments assistance provided by A.I.D., has the United States replaced the International Monetary Fund (IMF) as the "lender of last resort" for Central America?

Mr. McPherson: The International Monetary Fund (IMF) continues to play an important role in Central America as a "lender of last resort" and A.I.D. is not seeking to be a substitute for it. Costa Rica and Belize have active standby programs, and Panama is in the final stages of negotiating one. Guatemala, El Salvador and Honduras have all had active programs during the same period that the United States was providing large-scale assistance. In each of these cases, we expect new IMF arrangements in the future. In Guatemala and Honduras, the near-term prospects for such an arrangement, however, are affected by presidential elections later this year. We consider our assistance to complement IMF programs in two ways. First, by increasing the resources available, it tends to reduce the costs of adjustment. Second, the policy reforms we seek with our assistance promote the structural adjustments that will enhance long-term growth prospects.

FUTURE COSTS OF SOLVENCY IN CENTRAL AMERICA

Senator Kasten: Without IMF arrangements, what will be the future costs to the United States to keep the Central American countries, particularly Honduras, solvent?

Mr. McPherson: Countries not currently negotiating with the International Monetary Fund (IMF), such as Honduras, will find economic recovery difficult if they do not correct serious structural imbalances. The United States or other donors could consider filling the balance-of-payments "gap" resulting from structural imbalances, the "gap" being defined as the amount of foreign exchange needed to preserve a certain GDP growth rate. If it is not filled, GDP growth will be lower--perhaps negative -- because the country will lack the foreign exchange to maintain desired import flows. Such an eventuality, of course, must be of concern to the United States because the resulting risks of greater social unrest may endanger overall U.S. interests in that country. On the other hand, filling the gap without requiring structural adjustment is a costly strategy that has the potential to create an unhealthy dependency relationship. The financial costs of such an arrangement would be determined by the minimum GDP growth performance deemed to be desirable in any particular country. For Central America as a whole, those costs would exceed current U.S. levels of assistance, assuming that no IMF funds are in the picture, and we could not meet them. Even if we could, the return on such an "investment" would be much lower than that on a program based on sound stabilization and structural adjustment measures.

POLICY ON MACROECONOMIC CONDITIONALITY

Senator Kasten: What is A.I.D.'s current policy on macroeconomic conditionality in terms of working with the IMF, and does A.I.D. have sufficient economic expertise to permit analysis of Central American economies, without relying on IMF expertise?

Mr. McPherson: A.I.D. continues to encourage countries with internal and external financial disequilibria to adopt stabilization programs and to enlist the services of the International Monetary Fund (IMF) in helping to design and provide financing for such programs. We value the technical advice and assistance that the IMF can offer, and we have emphasized to Central American governments the indirect benefits an IMF-supported stabilization program can bring in the form of debt rescheduling and new commercial bank loans and credits. However, there are times when we will differ with specific IMF policy recommendations and policy analysis. Moreover, IMF's role is to focus primarily on short-run financial stability. A.I.D. conditionality takes a longer-term view that focuses also on structural adjustment. Furthermore, there are times when political considerations such as imminent elections make an IMF role infeasible, and there are different occasions when a country chooses for other reasons not to approach the IMF.

We are confident that A.I.D. now has sufficient expertise -- eight U.S. economists in Central America, several host country economists, and backstopping in Washington -- to provide solid analysis of the Central American economies and to devise our own conditionality. At the same time, the IMF has a large body of specialized expertise which it can devote to country economic analysis, and A.I.D. certainly benefits by reviewing and utilizing the IMF's work. Of course, there may be times when we differ with some of the IMF's analysis or policy recommendations. We have the analytical capability to decide for ourselves whether we should agree with those recommendations or not.

LAND REFORM ACTIVITIES IN EL SALVADOR

Senator Kasten: AID has provided about $100 million for land reform activities in El Salvador since fiscal year 1980. What is the status of land reform efforts? Have former landowners been compensated to their satisfaction? Have cooperatives been able to pay off debt incurred for the land transferred to them? Have cooperatives been able to make a profit, or have revenues been insufficient to cover production loans?

Mr. McPherson: Compensation of former landowners continues at the present time. To date $162.7 million ($10.2 million in cash and $152.5 million in bonds) has been paid to former owners of Phase I farms. This covers the compensation of 256 of the 472 properties affected by Phase I. Compensation under Phase I was to be the simple average of the owner's 1976 and 1977 tax declarations. However, this has not been as simple as envisioned because tax declarations have been missing or altered, and some owners undervalued to avoid taxes while others overvalued when securing bank loans or in anticipating the reform. Capital improvements made after 1977 and adjustments for reserve rights are also considered in determining the final compensation amount. Verifying and valuing the capital improvement and determining the reserve rights have delayed compensation to former owners.

(Many of the same problems described above also plagued Phase III of the reform. In addition, under Phase III each of the individual parcels must be surveyed and legally described before a title can be issued. Since titling and compensation of former owners are tied together in the law, compensation has been slow. By the end of 1984, 1057 of approximately 4,000 affected Phase III landlords had been compensated in the amount of $17.4 million. Half was in cash and half in bonds.)

Titling and Debt Repayment for Phase I. Once the former owner's reserve rights are settled and compensation has been paid, the cooperative's agrarian debt is established. The agrarian debt for each cooperative equals the compensation paid the former owner (subject to any pre-reform emcumbrances). Equating the cooperative's debt with the compensation paid to the former owner has led to some problems. Because the former owner's compensation is reached by negotiating from declared values, the final compensation amount (and thus the cooperative's agrarian debt) may or may not bear a relationship to the productive capacity of the land or the ability of the cooperative to eventually repay its debt.

During 1984, an analysis of the debt structure of the cooperatives was conducted by A.I.D. consultants*.

They found the debt faced by the cooperatives consisted of three components: (1) the agrarian debt incurred for the land and other expropriated assets, (2) the "ISTA-BFA Cartera" which was emergency production credits loaned to the cooperatives in 1980, and (3) accumulated production and investment loans which have been "rolled-over" since 1980. The total debt (principal and interest) faced by the cooperatives was estimated to be $800 million of which the agrarian debt accounts for 87.4 percent; four percent for the "ISTA-BFA Cartera"; and the remaining 8.6 percent in accumulated loans. The consultants concluded that the total annual income of almost 75 percent of the cooperatives is barely sufficient to meet the service payments on their current bank debt (production and investment loans), and nearly 95 percent do not have, as of November 1984, the financial capacity to cope with the total annual debt service payments. Alternatives as to how to deal with the unmanageable portion of the cooperatives debt are being studied by the Government of El Salvador.

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* "Analysis of the Agrarian Debt of Phase I Agrarian Reform Cooperatives in El Salvador", Robert R. Nathan Associates, Inc., October 1984.

Phase I Production. Throughout the Salvadoran agrarian reform emphasis has been placed on maintaining agricultural production. The incomes of the Phase I beneficiaries, the agricultural export income of the nation and, to a large extent, the success of the agrarian reform depend upon the ability of the Phase I farms to maintain production even during the disruptive process of changing ownership and management.

However, several factors complicate attempts to measure Phase I production progress, and statistical indicators fail to reflect the dynamic nature of El Salvador's agrarian reform. It is difficult to measure precisely how well the Phase I farms are producing because comparative, time-series data are hard to develop and analyze, especially now that it is necessary to distinguish between the reform and non-reform sectors. Definitional changes also impair comparability. With technical assistance from AID, the GOES is improving its capability to monitor and measure agrarian reform sector progress and production.

Numerous Phase I farms sit squarely in areas of military/guerrilla combat, especially in the Departments of La Union, San Miguel, Usulutan, San Vicente, La Paz, Morazon, Chalatenango and Cuscatlan. The result is that upwards of 50 farms have been abandoned at least temporarily over the years and many have not returned to operations as cooperatives. As of November 1984, ISTA reported 18 completely abandoned Phase I farms.

Export crops such as cotton, coffee and sugar cane have been hard hit. Cooperative members, as well and private producers, have been warned by the guerrillas not to plant export crops or have been charged "war taxes" in cash or produce for areas planted.

Equipment has been destroyed and workers threatened, kidnapped and killed.

Cotton is especially susceptible because it needs timely applications of pesticides applied by light planes. Spray planes are easy targets because they must fly low and slowly. Thirteen crop dusting planes were shot down in 1982, and although the Armed Forces have emphasized security around the cooperatives during critical periods in the agricultural crop cycle, losses continue at disruptively high levels. The extent of the reduction in cotton production, as well as other export crops, due to threats and violence is difficult to measure and adds to the economic uncertainty faced by all agricultural producers in El Salvador, including reform beneficiaries.

In the case of sugar cane, the fields of drying cane are easily destroyed by fire. To deal with this, harvests are begun earlier than usual. When cut early, the cane is less dry; but the sugar content is lower, reducing production.

Despite these problems, progress is being made, and the Phase I farms are continuing to produce significant amounts of basic grains and export crops.

The Phase I reform sector cropped 21,600 fewer hectares (a 26.6 percent decline) from the 1980-81 crop year to the 1983-84 crop year. This decline occurred despite an increase of hectares planted on the cooperatives located in the two agricultural regions of western El Salvador. Offsetting that increase was comparatively greater decline of hectares planted on the cooperatives in the less secure eastern regions of the country. Other factors contributing to the decrease were low world prices, a shortage of farm equipment, a lack of timely credit and the decisions made by some cooperatives to change their crop/enterprise mix.

The Phase I reform sector cooperatives' average yields compare very favorably with the national average yields. Average yields can reflect many variables: management, soil fertility, cultural practices, availability of timely credit and the vagaries of weather. There is little doubt that the credit and technical assistance priorities given to the Phase I cooperatives have helped them to maintain their average yields.

While hectarage planted and average yields are important determinants of the amount of total product eventually harvested, they alone are not sufficient to demonstrate the importance of the Phase I reform sector cooperatives' contribution to El Salvador's agricultural production.

The Phase I farms produce over 5 percent of the basic grains which are marketed as well as 14 percent of coffee, 40 percent of cotton and 37 percent of sugar cane. Production of all agricultural commodities except sugar cane has decreased in both the reform sector and for the nation as a whole. This trend is particularly true for the basic grains where national production has decreased 16 percent for corn, 9 percent for beans, 29 percent for rice and 12 percent for sorghum.

A.I.D. ASSISTANCE TO CENTRAL AMERICA

Senator Kasten: How much A.I.D. assistance has actually been spent?

Mr. McPherson: From 1980 through 1984, $1.29 billion of DA and ESF assistance were expended for Central America. DA and ESF expenditures increased from $77.7 million in FY 1980 to $439.9 million in FY 1984 and are projected for $836.9 million in FY 1985.

Senator Kasten: How has A.I.D. been able to accelerate disbursements to keep pace with increased obligations?

Mr. McPherson: The Missions' authority to approve projects and to sign contracts has been increased. An additional 34 U.S. direct hire employees, a 25% increase over existing levels, have been assigned to Central American missions. Projects have been designed to facilitate more rapid disbursement. Many are now implemented by private sector institutions. Most ESF funds are being provided as fast disbursing cash transfers. Individual A.I.D. missions and host governments have taken a wide variety of actions to accelerate the pace of project implementation.

FY 1984 SUPPLEMENTAL

Senator Kasten: Have you already obligated or spent any of the supplemental assistance, or will A.I.D. wait until the obligation deadline of March 31, 1985 to obligate 1984 supplemental assistance?

Mr. McPherson: A.I.D. obligated the entire $408.5 million under the FY 1984 supplemental by March 31, 1985. Over two-thirds of the amount available under the supplemental, or $274 million, had been obligated by February 28, 1985.

OBLIGATION OF FY 1985 ASSISTANCE

Mr. Kasten: Has A.I.D. obligated any of the FY 1985 assistance?

Mr. McPherson: Yes, we have. In Central America, A.I.D. has obligated $269 million, or 34%, of the amount available for Central America under the FY 1985 Continuing Resolution. This was in addition to the funds obligated under the FY 1984 supplemental during the first half of FY 1985.

For the region as a whole, the LAC Bureau has obligated $439 million, or 38%, of planned assistance under the FY 1985 Continuing Resolution.

CENTRAL AMERICAN DEVELOPMENT ORGANIZATION

Senator Kasten: Mr. McPherson, what progress has been made towards establishing the Central America Development organization?

Mr. McPherson: I continue to believe that something along the lines of a Central American Development Organization (CADO) as proposed by the National Bipartisan Commission on Central America (NBCCA) would be beneficial. However, in the absence of Congressional authorization, we have not prepared a concrete proposal for a CADO.

We have informally queried Central American governments and found broad support for the general concept of a Central American Development Organization. There were, however differing views among the Central Americans on the structure and functions of a CADO. We are proposing that working level meetings be held this year with Central American countries to further discuss options for the creation of a CADO.

If authorizing legislation is passed a formal meeting to create CADO would be held by prospective member countries. I would head the U.S. Delegation. If an organization like CADO is not formed, we will consider other options, such as an informal working group or an existing forum such as the Inter-American Development Bank Consultative Group for regional discussions on assistance issues.

ROCAP

Senator Kasten: How can regional efforts through A.I.D's regional office for Central America and Panama (ROCAP) proceed until Central American and U.S. differences with Nicaragua are resolved?

Mr. McPherson: Since FY 1982 all regional projects have been designed with this problem in mind. Assistance to Nicaragua under a regional project is construed as bilateral (rather than regional) to the extent that it provides separable benefits to Nicaragua which are not essential to realize regional objectives. All regional institutions are required to agree that assistance funded by A.I.D. will not finance activities benefiting Nicaragua.

Following these guidelines, A.I.D. and the regional institutions have been able to continue technical and development assistance programs which are regional in nature but which no longer include Nicaragua. In those few cases where the success of a project must include Nicaragua, such as fighting coffee rust, Nicaragua is still included as a regional participant in the overall program.

Large scale financial programs to finance Central American Common Market (CACM) trade would be designed to exclude Nicaragua as a beneficiary. For example, Nicaragua might be excluded from financing by requiring that its imports from the CACM be no greater than exports to the CACM for any given time period.

In this way A.I.D. is continuing to promote regional development in Central America in accordance with National Bipartisan Commission on Central America (NBCCA) recommendations.

ECONOMIC ASSISTANCE TO CENTRAL AMERICA - REGIONWIDE

Senator Kasten: Consistent with the recommendations of the Kissinger Commission, the Administration requested and the Congress appropriated large increases in economic assistance to Central America in supplemental 1984 and regular 1985 assistance bills. The supplemental assistance totalled $358 million and the 1985 appropriation totalled $955 million. There remains concern that A.I.D. exercise prudent controls over this assistance and seek to achieve the maximum development impact practicable.

I would like to know, Mr. McPherson, what actions have been taken to increase A.I.D. staff levels in Central American missions in order to assure that the funds are administered properly? Has A.I.D. increased its missions as recommended by its Workforce Assessment Study?

Mr. McPherson: The Workforce Assessment Study recommended the following personnel increases for Central American Missions: 33 U.S. Direct Hire officers. 12 U.S. personal service contractors, 25 foreign national employees, and 38 foreign national contract personnel.

A.I.D. approved 34 additional U.S. Direct Hire personnel for Central American Missions. Our plan for personnel assignments is as follows: 23 were at post on 4/15/85; that number will increase to 27 by 5/1/85; 31 by July; and 32 by August. Firm candidates have not yet been identified for the remaining two positions.

In the other three personnel categories, our Central American A.I.D. missions have added 43 persons of the recommended total increase of 75. In Costa Rica and El Salvador alone, we expect recruitment of an additional 13 persons within the next few weeks. The balance of the recruitment should be completed throughout the summer.

Finally, we have moved the Latin America/Caribbean Regional Office of A.I.D.'s Inspector General (IG) to Tegucigalpa, Honduras, and significantly increased its staff. The IG is accordingly increasing its audit coverage of A.I.D.'s Central American programs.

ECONOMIC ASSISTANCE TO CENTRAL AMERICA - EL SALVADOR

Senator Kasten: Staffing constraints are particularly acute in El Salvador. What action has A.I.D. taken to beef up staff levels, given the high volume of economic assistance and past allegations of misuse?

Mr. McPherson: As I noted earlier, the Ink Task Force recommended staff increases for all our Central American A.I.D. Missions. In El Salvador, an additional seven (7) U.S. Direct Hire (USDH) staff were recommended. Subsequently, for security reasons, we have decided to locate one of these positions, a Regional Legal Advisor, in a nearby country. At present five (5) of the six (6) are already at work in El Salvador and the remaining officer is scheduled to arrive in August, 1985.

Total approved Mission staff levels (all categories) have been increased from 139 to 179. At present, 150 of these are in place. Another six foreign national contract personnel will be added in the next few weeks. We anticipate that this staffing pattern will be adequate to provide effective management and control. However, we will be reviewing managerial capacity on a periodic basis.

Senator Kasten: Has the Mission's U.S. Controller staff been increased from its August 1984 level of three to a level more commensurate with program size?

Mr. McPherson: Yes. We are adding two U.S. personnel on personal service contracts. One of these persons is already at post, and we expect to sign the second contract shortly.

Senator Kasten: How will you balance the need for more staff in El Salvador with secured work space limitations? Do you know when construction of the expanded Embassy office space will be completed and how many additional A.I.D. staff will be added at that time?

Mr. McPherson: The provision of secure office space has been an important factor in staff expansion in our A.I.D. Mission in El Salvador. Recent decisions on work space have made it possible to proceed with orderly recruitment of the planned additional personnel.

USAID personnel who previously were working in several locations outside the Embassy compound are being moved to one building that offers better security arrangements. We have also financed security improvements for this building. To date, staff of our Rural Development Office and Human Resources/Humanitarian Assistance office have been moved to this building. Additional floors are being leased as they become available to accommodate increased staff.

In addition, a new two-story annex within the Embassy compound should be completed in August 1985. It will be able to absorb approximately half of the A.I.D. staff, most of whom are now working in crowded quarters on the Embassy Mezzanine. Finally, there are plans to build an underground office facility within the Embassy compound that will be used by A.I.D. when completed in approximately two years.

FOREIGN EXCHANGE CONTROL AND MANAGEMENT IN CENTRAL AMERICA

Senator Kasten: What actions has A.I.D. and the recipient-country central banks taken to minimize capital flight which occurs when import invoices are intentionally and illegally overstated?

Mr. McPherson: An important part of our ESF assistance programs to Central America has been to help improve the general foreign exchange control and allocation systems of each of the participating countries to stem capital flight. We maintain close collaboration with host country counterpart personnel at both the policy and technical levels in monitoring those systems and determining how we might further improve their effectiveness, particularly as it pertains to minimizing capital flight.

On the policy side of the question, A.I.D. has followed a general strategy in the region of supporting programs or policies designed to ease speculative pressures on overhead currencies and to remove incentives to send dollars outside of the region.

Technical or operational measures that are being taken in each country to assure that funds are not being sent outside of the recipient country by illegal means such as overinvoicing include the following:

El Salvador

The Central Bank has, with the help of A.I.D., set up a Price Checking Unit (PCU), which has a staff of thirteen professionals which reviews and verifies the reasonableness of invoice prices for proposed imports. The PCU reviews transactions referred to it by other departments of the Central Bank when quoted prices appear questionable. In addition, the PCU verifies every twenty-fifth import transaction which the the bank is asked to approve. The unit is currently receiving technical assistance which should further enhance its effectiveness.

Using market price data supplied to it by the PCU, the Foreign Exchange Department of the Central Bank currently verifies the prices of all imported agricultural inputs, most agricultural commodities from outside the Central American Common market, all vehicles, capital goods and petroleum products.

Costa Rica

A price verification unit has been established in the Central Bank under the joint sponsorship of A.I.D., the Central Bank of Costa Rica and the Costa Rican Bankers' Association. Six professionals work in the unit, which is designed along the lines of the Salvadoran PCU. Since the Government of Costa Rica is operating under a hiring freeze, the Bankers' Association has participated in the selection of the unit's personnel and is paying their salaries while other operating and equipment costs are being covered by the Central Bank and A.I.D. The unit checks transactions pertaining to the the ESF program on a random basis and reports to A.I.D. on a quarterly basis.

Honduras

The Central Bank of Honduras established a price checking unit with A.I.D. assistance in April 1984 which is similar in structure, function, and operation to the unit in El Salvador. Staffed with three professionals (and slated to increase to six by June 1), it reviews eligible transactions under the ESF program on a random basis and reports its findings to the A.I.D. Mission Controller on a quarterly basis.

Senator Kasten: Have the recipient countries taken action to use their limited foreign exchange to purchase essential imports as opposed to luxury goods?

Mr. McPherson: Rather than prohibiting imports of luxury items outright, all of the recipient countries in Central America have chosen to tax them very heavily. Experience demonstrates that outright prohibitions lead to contaband imports or to other economic distortions. In the cases of Costa Rica and El Salvador, purchases of the goods have to be made through the parallel market and they are taxed at very high rates (betwen 100 and 200 percent of landed value of the good, in the case of Costa Rica). Honduras, which has no parallel market, controls the foreign exchange through the Central Bank, and accords a last place priority to luxury items when selling dollars. As with the other two countries, luxury items are subject to very high import tax rates.

Beginning in 1980, the Central Bank in El Salvador instituted a list of goods prohibited for import in an effort to protect its scarce foreign exchange. The list was subsequently phased out beginning with the establishment of the parallel market in 1982. The Central Bank decided to do away the list for a variety of reasons:

- Importation of contraband goods proved to be impossible to control.

- Tax revenues were enhanced with the importation of addtional, high cost goods.

- The parallel market strategy was bolstered with the flow of additional transactions thorugh it rather than through the black market.

ECONOMIC GROWTH

Senator Kasten: Cash transfer assistance has been justified as a means of achieving economic growth. To what extent has economic growth occurred, and has that growth been sufficient to improve living standards for the expanding populations?

Mr. McPherson: For Central America as a whole the gross domestic product (GDP) grew by 1.2% in 1984, a major turnaround from the 3.3% decline in 1982 and 0.7% decline in 1983. Growth was positive in all countries of the region, although only in Costa Rica was there an increase in per capita GDP. Given the debt problems of most of the Central American countries, the poor prospects for their traditional exports, and the continuing political turmoil which discourages new investment, economic recovery will be gradual with present levels of external assistance. We expect the regional GDP growth rate to improve to at least 2.5% in 1985, still slightly below the population growth rate. If the levels of assistance recommended by the National Bipartisan Commission on Central America are made available, we believe the regional GDP growth rate will rise to 5-6% by 1990.

INCREASE IN EXPORTS

Senator Kasten: Have the Central American countries increased exports as envisioned by the Caribbean Basin Initiative, and what types of exports have been increased?

Mr. McPherson: For the 6 countries of the region receiving U.S. assistance, exports in 1984 were 4% above their 1983 level, reversing a significant decline over the proceding three years. Exports to the United States rose faster, by 12% (based on U.S. import data). The specific products accounting for increased shipments to the United States vary among the Central American countries. In addition to traditional agricultural exports they include nontraditional items such as electrical and electronics equipment, textiles and apparel, and horticultural products. It is not possible to determine to what extent these increased exports result from the CBI as opposed to growth in the U.S. economy. We are confident, however, that new investments and new exports are being made as a result of the CBI.

IMPEDIMENTS TO EXPORTERS

Senator Kasten: In your opinion, what impediments to exporters remain?

Mr. McPherson: In some countries, overvalued exchange rates are still major barriers to increased exports, and throughout the region many domestic and foreign investors are reluctant to make major commitments in the face of the region's unsettled political/security conditions. Other problems include lack of timely access to foreign exchange by exporters dependent upon imported inputs, cumbersome and time-consuming administrative procedures for exporting, lack of marketing know-how, and shortages of production and export credit. With A.I.D. support and assistance, progress has been made in overcoming these barriers, but considerably more needs to be done. Another barrier to exporting is a regional tariff structure that has favored protected production for a now-depressed regional market rather than encouraging efficient production for extraregional markets. The Central American countries agreed in December 1984 to revise their common external tariff by October 1, 1985, and it is hoped that the revisions to be introduced will stimulate more efficient production.

POLICY CHANGES TO INFLUENCE ECONOMIC GROWTH

Senator Kasten: To what extent has A.I.D. been able to influence host-country policy changes to encourage economic growth?

Mr. McPherson: A.I.D.'s effectiveness in influencing host-country policy changes in Central America has varied from country to country, with the most important determining factors being a country's recognition that stabilization and structural adjustment are necessary and its willingness to face up to the short-term political risks associated with policy reform measures. Where the will to undertake reforms has been present, A.I.D. has influenced the nature, timing, and magnitude of various policy adjustments, sometimes in cooperation with the I.M.F. or World Bank, and sometimes by itself. A.I.D. has placed particular emphasis on price liberalization measures that tend to stimulate domestic savings and private investment in productive activities. Significant policy reforms have been initiated in most countries of the region, but much remains to be done.

INCREASED ASSISTANCE WITHOUT MORE POLICY ADJUSTMENTS

Senator Kasten: Since policy change was, according to the Kissinger Commission, a pre-condition to economic improvement, how do you feel increased assistance can be effective without more policy adjustments?

Mr. McPherson: We agree that policy reforms make our assistance more effective, and that is why we continue to press hard for their implementation. Given the political risks involved in implementing these reforms, they often have been introduced at a slower rate than we believe is desirable from the point of view of stimulating economic growth. But progress in the right direction is taking place, and A.I.D. has played an important role in the reform process.

GRENADA

Senator Kasten: The one year anniversary of U.S. action in Grenada has come and gone. The U.S. has been severely criticized for not doing enough in that country -- too little action, a lot of bureaucratic snags. What exactly do you propose for Grenada in FY 1986?

Mr. McPherson: A great deal has been accomplished in Grenada during the past 17 months. A.I.D. completed emergency relief operations, supported a broad economic stabilization program, and is implementing vital infrastructure projects. As a result, essential public services were promptly restored, economic policy reforms initiated, and priority infrastructure projects such as the airport, roads, utilities, and schools undertaken. A major health project implemented by Project HOPE, but financed by A.I.D., is providing improved health services and training. The new international airport became operational in October. The radio station is back on the air.

A.I.D. strategy is to help create conditions conducive to private initiative. As part of the economic stabilization program, liquidity was restored in the banking system, and the statist policies of the Peoples Revolutionary Government replaced with policies supportive of private sector-led development. Complementary A.I.D. projects support small farmer agricultural development, promote private investment, help provide factory space, and assist the newly established Industrial Development Corporation.

A.I.D.-accrued expenditures in Grenada in FY 1984 amounted to $16.6 million, or $183 per capita. Currently projected FY 1985 accrued expenditures are $25.4 million, or about $280 per capita. The expenditures for Grenada on a per capita basis are about three times the average for the Eastern Caribbean countries in FY 1984, and are projected in excess of four times in FY 1985.

In FY 1986 A.I.D. plans a second $10 million infrastructure project designed to further improve basic infrastructure to a level sufficient to attract additional productive investment, contribute to recovery and growth of the economy, and expand employment. Several regional activities supporting private sector growth and investment will also be continued. A.I.D. provided details of this proposed activity in the FY 86 Congressional Presentation on page 133.

CONTRACTING AND TRAINING COSTS FOR CENTRAL AMERICA

Senator Kasten: Regarding the $25 million which was made available via the reprogramming to implement the scholarship program recommended by the National Bipartisan Commission on Central America, How are the implementing contractors being selected by the individual missions? Through AID/Washington contracting processes?

Mr. McPherson: Implementation for the Central American Peace Scholarhips Project is being handled in several ways. First, A.I.D.'s own selection and placement system is being used in order to expedite placements during the first year. A.I.D.'s programming agent has successfully adjusted its operations to meet the requirements of the scholarship program. Individual missions are in the process of establishing criteria for selecting contractors for the scholarship program and will make selections based on competitive processes. Where several missions are planning to contract for similar services, AID/Washington may conduct the contracting process on their behalf.

Senator Kasten: Other than ISEP/Georgetown University, have any implementing contractors been selected?

Mr. McPherson: No implementation contractors other than Georgetown have been selected yet. Most of the estimated 1,200 trainees to be placed in the U.S. during Fiscal Year 1985 will be placed by A.I.D. rather than contractors.

Senator Kasten: If so, how do the per student monthly training cost projections of other selected implementing contractors compare with those of ISEP/Georgetown University -- approximately $1,225 (which includes round trip transportation costs)?

Mr. McPherson: Our experience with undergraduate programs indicates that ISEP/Georgetown's costs of $1,225/month or $14,700/year are somewhat higher than A.I.D.'s actual undergraduate costs under the Caribbean Basin Scholarship Fund ($1,000/month or $12,000 per year). Under the Central American Peace Scholarship Project, A.I.D. plans to place some scholarship recipients into undergraduate programs in accredited U.S. colleges and universities for $10,000 per year, including round trip transportation costs. Key factors in costs are the reputation of the U.S. institution, its location, and the level of training. Prestigious universities have higher costs and, in general, costs for graduate-level programs are substantially higher than costs for undergraduate programs.

ECONOMIC ASSISTANCE TO HAITI

Senator Kasten: It is important, I feel, that Haiti show an increased commitment to supporting U.S. development efforts. Along that line, what actions has the Haitian government taken to encourage A.I.D. in its endeavors?

Mr. McPherson: The GOH has committed itself to a comprehensive series of policy reforms within the context of Title III. Among these reforms are:

-- improved budgeting of recurrent costs;
-- shifts in the tax burden to encourage export-oriented production; and
-- changes in agricultural policies to improve efficiency of agricultural production and marketing.

The Ministry of Health has made major administrative improvements and has drafted a population policy that responds to the developmental implications of current and projected population density and growth trends. Since 1982 new emphasis has been given to increasing public access to preventive and curative services, to accelerated extension of oral rehydration therapy and to focus services on such national priorities as diarrhea and malaria.

The government has supported creation of new private sector financial institutions to support economic diversification and expansion. The export assembly manufacturing sector alone has generated some 50,000 jobs to date.

The government has granted import duty exemptions and provided other support to the many foreign PVOs operating in Haiti, which provide significant additional resources to assist Haitian development, especially in health, education and agriculture.

Senator Kasten: Has lack of government support compromised A.I.D.'s development efforts in any way?

Mr. McPherson: No. A.I.D. has received government support in key areas, e.g., decentralization of some ministerial operations, strengthening of others, which will, inter alia, increase the effectiveness of the A.I.D. assistance program. Government initiatives to encourage the export manufacturing sector, to promote a primary education curriculum reform, to extend health services and to place particular attention to malaria and diarrhea merit and receive donor support. The almost 50% of our development efforts carried out through nongovernmental organizations also improves A.I.D.'s effectiveness and efficiency.

Senator Kasten: What success has A.I.D. had in involving indigenous organizations in implementing its program in Haiti?

Mr. McPherson: I believe that A.I.D.'s strategy of channeling as much assistance as practical through PVOs, as mandated in the Foreign Assistance Act, has been notably successful in involving more indigenous groups in agriculture, rural infrastructure, health and family planning programs. A.I.D. makes a special effort to help these PVOs to coordinate their programs to the maximum extent possible in order to achieve the effective use of PVO resources.

Senator Kasten: Have there been any improvements in program results since A.I.D. instituted its emphasis on using private organizations to implement its program?

Mr. McPherson: Yes. A.I.D. and the GOH recognize that the PVOs are an important existing development force in Haiti. In FY 1984, PVOs carried out almost half of A.I.D.'s development activities, which involved the entire budgets for the PL 480 Title II program, the Special Development Activities project and almost all of the ESF program.

PVOs are particularly effective in directly providing assistance to many marginal communities in Haiti, thereby performing a valuable function in providing important services and resources to Haiti's poor.

Senator Kasten: Do you feel that the emphasis on private sector development is justified in a country that is 80 percent agricultural?

Mr. McPherson: Yes, because private investment helps ameliorate such problems as the almost 50% unemployment rate. We believe that the best way to resolve this unemployment problem on a sustaining basis is by creating jobs through the development of the private sector. Private investment brings new financial and technical resources to Haiti, helps to reduce economic dependence on such traditional exports as coffee and sugar and generates employment based on successful competition in export markets, rather than on the public sector or foreign donor assistance.

Senator Kasten: Does this emphasis detract from agricultural development?

Mr. McPherson: No. Some 30% of Haiti's agricultural land should be taken out of production because of the desperate state of soil degradation in that country. The most effective and efficient way to achieve this is to create off-farm employment for the agriculture-based population. Agriculture still will offer opportunities to further develop and diversify the economy, which A.I.D. is pursuing.

Senator Kasten: What effect are PL 480 programs having on reducing malnutrition in Haiti?

Mr. McPherson: The PL 480 Title II program is providing needed high protein and high calorie supplemental foods to undernourished children under six, pregnant women and nursing mothers. These people represent about 10% of the total nutritionally at-risk population in Haiti. In a 1983 evaluation of the impact of one PVO's MCH program, about 70% of all children showed significant improvement in their nutritional status by the end of their four-month participation in the program.

Title II also supports a school-feeding program, which serves a daily hot lunch to 444,000 primary-school students, who represent over 60% of all primary-school students in Haiti. In a 1981-1982 evaluation of the impact of this program on the nutritional status of 2,000 randomly selected participants, it was found that the lunch acted as a safety net. Generally, for those persons who were already malnourished and who participated in the evaluation, there was no significant deterioration in their nutritional status from 1981 to 1982. However, for a control group of 2,000 persons who were also malnourished but did not participate, there was a significant deterioration in their nutritional status.

Senator Kasten: How important is the PL 480 program to A.I.D.'s development efforts?

Mr. McPherson: Title II's school feeding program provides daily meals to primary school students. Food for mothers and children is supplied at over 500 sites. The school feeding component helps increase school attendance and improve the attention span of students. The maternal child feeding program is saving lives.

Title I is important because its counterpart-fund generations have enabled the GOH to support A.I.D. project counterpart requirements. Indeed, in 1984 about 24 percent of the government's contribution to development program was generated from Title I sales. The planned Title III program for FY 1985-87 will expand the resource supply to Haiti and require a broad series of fiscal and program initiatives designed to promote greater efficiency and effectiveness by the government in its services to the poor.

Senator Kasten: In what ways will the proposed Title III program enhance A.I.D.'s efforts?

Mr. McPherson: The Title III program, specifically through its multi-year programming of commodities and its provision for possible debt-forgiveness, provides important incentives to the GOH to undertake major reforms that have lasting development impact. For example, as a result of the current Title III discussions, the Ministry of Agriculture is undergoing a major restructuring, including moving professional staff to rural offices to permit a greater concentration of services and resources to these rural areas.

Senator Kasten: Why does A.I.D. believe a Title III program will be successful in Haiti when numerous problems have been noted in implementing the program elsewhere?

Mr. McPherson: A.I.D. in Haiti has built upon the lessons from experience with this program in other countries and has moved the Title I management into a system similar to the one required under Title III. A.I.D., consequently, has increased its control over the programming of local-currency generations and has made the following adjustments in the system used by the government to manage those funds:

-- USAID negotiates an annual budget for actual allocations to projects;

-- USAID negotiates which projects will be eligible to receive funds; and

-- allocations are monitored to assure that proceeds are used properly.

In addition, there are formal joint GOH/USAID annual reviews of program accomplishments. There are also institutionalized procedures for annual reviews of the program, which provide the GOH and USAID with a better accounting of how funds were actually used. The annual review process helps in modifying the program where necessary, resolving problems, and assuring that local currency generated under Title III is allocated on the basis of actual performance.

Senator Kasten: Given the past performance of the Haitian government in development matters, what assurance do you have that the government can deliver on the extensive requirements posed by a Title III agreement?

Mr. McPherson: In response to Title III negotiations in 1982, which did not result in a program, and to an anticipated Title III program, to start in FY 1985, the GOH has already demonstrated a willingness to implement the following critical structural reforms:

-- administrative reform of selected public agencies, including financial and administrative decentralization to improve services nationwide;

-- increase in salaries for government employees in the health and agriculture ministries to improve prospects for retention of skilled personnel in short supply in Haiti.

Most important, the close monitoring of the Title I program in recent years gives us confidence that we will have the ability to quickly detect and correct any performance failures, were they to occur. Haitian authorities have placed high priority on this new program and have made a serious effort in the program negotiations; they give every indication of an equally serious effort to meet their commitments.

Senator Kasten: Do Haiti's weak institutional capacities limit the amount of aid which can be effectively absorbed?

Mr. McPherson: To deal with problems with absorptive capacity, A.I.D. has taken the following actions:

-- channeled almost half of its assistance resources through nongovernmental institutions, whose absortive-capacity limitations can be more easily corrected;

-- strengthened GOH developmental institutions (e.g., Ministry of Transportation and Public Works, the Bureau of Agricultural Credit), in part because most projects have been designed and implemented with this in mind;

-- worked through intermediary financial institutions, which provide the investment and working capital required to create or expand medium-to-large scale enterprises with high potential productivity, employment impacts, or both, and

-- supported strengthening of the local private sector as a source for new employment based upon private investment.

Senator Kasten: In view of the weaknesses, what evidence is there that the government has been able to sustain A.I.D. projects?

Mr. McPherson: The evidence is:

-- project implementation has improved, in large part because of increased GOH cooperation in A.I.D. projects, which has reduced the A.I.D. pipeline significantly (e.g., down almost $6 million in the first quarter of FY 1985);

-- the GOH's compliance with the Title I counterpart requirement was exemplary in FY 1984; and

-- in the Title III negotiations, the GOH has implemented several significant policy reforms, including a 10% reduction in the coffee export tax to increase small producer earnings, an increase in diesel fuel taxes, and an increase in car registration fees, the latter two of which are more directly aimed at more prosperous groups.

RURAL WATER SYSTEMS IN PERU

Senator Kasten: I understand that the original project authorized in September 1980 to provide $5.5 million to reach 420 small communities in six health regions in Peru with potable water, sanitation facilities, and health education by 1985, has fallen behind. What is the current status of the rural water systems and environment sanitation project? What is the project's currently projected completion date? How many new water systems are now in place in Peru because of this project?

Mr. McPherson: The purpose of the project, which was initiated in September 1980, is to provide potable water systems, latrines and health education to small rural communities with populations of less than 500 inhabitants, in the Peruvian sierra and jungle. The project will integrate these activities into the primary health programs of those communities and will also strengthen the institutional capacity of the GOP agency responsible for the project. Originally the project's target was to provide potable water systems, latrines and health education to 420 communities, however, in September 1982 the project was amended by adding $5.5 million and increasing the target to 660 communities.

The project got off to a slow start, due in part to a one year delay on the part of the GOP in meeting the original conditions precedent. However, within the past year, the pace of implementation has increased considerably. Seven new project engineers have been recruited, trained and assigned, thus providing at least one full time engineer per regional office. The time delay between site selection and construction start-up has been decreased.

Although the GOP completed only 4 water sytems in 1982 and 23 in 1983, it completed 100 in 1984. As of March 31, 1985, 144 water systems have been completed. We expect the project to meet its target of 660 systems by the end of the project, scheduled for September 1987.

An evaluation of the project completed in October 1984 concluded that the project is adequate and feasible, that it has made significant progress despite problems created by the very serious economic situation in Peru, and that the project will likely reach its objective of constructing 660 water rural water supply systems by 1987.

TOTAL NUMBER OF U.S. DIRECT HIRE IN USAID/CAIRO

Senator Kasten: What is the total number of U.S. Direct Hire in the Egyptian Mission?

Mr. McPherson: As of March 30, 1985, the number of U.S. direct hire in USAID/Cairo, including 4 International Development Interns, was 114.

Senator Kasten: Couldn't you reduce this staff if the program mix were changed so that $300 million was commodity import program and $200 million cash transfer?

Mr. McPherson: A change in the program mix to include $300 million in Commodity Import Program and $200 million in cash transfer would not by itself have any significant immediate effect on the size of our staff in Cairo. Because of the large number of projects currently being implemented and those which would continue to be developed from non-CIP or non-cash transfer funds, it would be necessary to retain about the current level of technical, project, administrative, financial management, and procurement personnel to manage this program in a prudent manner. Over time, as active projects were completed and replaced by fewer new ones, some staff reductions should be feasible. Nevertheless, it must be recognized that the present staffing level is extremely lean in relation to the number, size and complexity of the program in Egypt, so a reduction in the annual level of obligations for projects will not necessarily result in a commensurate reduction in staff.

Finally, we also want to make clear that A.I.D. does not support a program in which a major part of the program would be a commodity import program and cash transfer. Both the GOE and A.I.D. agree on the value of our project assistance. Recent GOE requests for increased assistance, while requesting cash transfer, have also requested increased project assistance.

Senator Kasten: How many positions could you save by changing the mix as I stated above?

Mr. McPherson: We are reviewing our staffing requirements in Cairo and, in conjunction with the modification of our program, to provide assistance in fewer, more concentrated areas, we intend to avoid increases which might otherwise be expected given the present and planned levels of project aid. I believe eventually the revised program mix you suggest could result in reduction of 10 to 15 persons for program reasons.

ADDITIONAL $10 MILLION REQUEST FOR LEBANON

Senator Kasten: Why are you requesting an additional $10 million for Lebanon when you still have $73 million remaining from the urgent FY 1983 Supplemental?

Mr. McPherson: The FY 1986 request is meant to signal our continued concern for Lebanon. We currently plan to use the 0 million requested for FY 1986 in the following manner:

-- $5 million to improve the delivery of health services in the Greater Beirut area, in particular for displaced families and those injured in the fighting;

-- $3 million for PVOs to continue reconstruction andrehabilitation of housing and other small scale infrastructure; and

-- $2 million to assist the Government of Lebanon to improve its capacity to plan and implement reconstruction activities.

MOROCCO: WINTER SNOWPACK AUGMENTATION PROJECT

Senator Kasten: I am pleased to see that you are recommending an increase for Morocco. Can you give the Subcommittee an update on the weather modification program in Morocco which was brought to the attention of the Subcommittee by the senior senator from North Dakota?

Mr. McPherson: On April 7, 1984 the governments of the US and Morocco signed the Project Agreement for the Winter Snowpack Augmentation Project. Implementation started immediately and all necessary personnel and equipment are presently on site in Morocco. During the first two weeks of December, AID and the Bureau of Reclamation conducted the First Annual Monitoring Review. The team noted the significant contributions of personnel, materials and capital improvements made by Morocco in support of the project. The team found all work on schedule, equipment properly functioning, and five seeding operations conducted. Presently, scientific studies are being conducted to determine the probable amount of precipitation on a seasonal basis which can be attributed to the seeding operations. Later this month, an interdisciplinary team of scientists will travel to Morocco to conduct the first external evaluation of the project.

ADDITIONAL ASSISTANCE TO THE INTERNATIONAL COLLEGE IN BEIRUT

Senator Kasten: You have heard from the International College in Beirut, which has requested some additional emergency assistance. On the one hand, I am tempted to suggest that you not respond to this request because of the dangerous situation over there, but on the other hand I think that people like Alton

Reynolds, the President of the International College, deserve such support, and I would therefore urge you to provide them with it.

Clearly, if the United States is going to have any influence in the future, it may well be only through those educational institutions, as it once was, and I think you should support them.

Can we expect to see some assistance flowing there soon?

Mr. McPherson: In spite of the current situation, we agree that the International College in Beirut should receive U.S. financial assistance. We have currently under consideration $425,000 to finance eighteen months rental of the American community school buildings, repairs, renovations, furniture and equipment for the main campus of the International College.

PIPELINE FOR EGYPT PROGRAM

Senator Kasten: How much is the pipeline now for Egypt?

Mr. McPherson: Our end-of-the current fiscal year estimate for our cumulative pipeline for the A.I.D. program in Egypt (ESF) is $2.1 billion.

Senator Kasten: How does that compare with the last couple of years?

Mr. McPherson: We are pleased to project a continuation of the reduction in our pipeline which began last year. FY 1984, the first year the pipeline did not increase, ended with a pipeline of $2.4 billion, down from $2.5 billion in FY 1983.

INCREASE IN USE OF SECTORAL APPROACH

Senator Kasten: Are you taking a more sectoral approach to the Egyptian program rather than a program approach?

Mr. McPherson: Over the last three years, A.I.D. in Egypt has begun to provide more assistance in the sectoral modes. Examples are the decentralization program, the forthcoming National Agricultural Production project, and the reduction of separate activities in the science and technology and population sectors, to focus on a limited number of institutions and areas of activity within a given sector. A.I.D. is able to achieve fewer management units in its project portfolio by increasing the size of individual projects and by concentrating on key sectors to achieve economies of scale in project management and more focused development impact.

GOALS AND OBJECTIVES OF THE U.S. ASSISTANCE PROGRAM FOR EGYPT

Senator Kasten: I understand that A.I.D.'s Mission in Cairo is particularly unique and difficult. I would like to know what attempt has been made to develop an understanding and agreement among the major U.S. participants and the Government of Egypt concerning the goals and objectives of the U.S. Assistance Program.

Mr. McPherson: The A.I.D. Mission and the Embassy fully coordinate and discuss the nature and scope of the assistance program during the annual program cycle. The A.I.D. program is always cleared by the Ambassador and thus represents a unified U.S. Mission position.

Regarding our efforts with the Egyptian Government, the A.I.D. Mission coordinates and plans project specific activities on a sectoral basis with the Egyptian Ministers who head up the various development sectors, e.g. agriculture, education, water and wastewater. The Ministry of Planning and International Cooperation, however, is the central coordinating body that decides how to allocate the assistance resources and has the primary role in determining priorities and major areas of emphasis after consultation with the various concerned ministries.

In FY 1985 A.I.D. Mission and the Ministry were particularly successful in reaching early agreement on allocation of over 80 percent of the $815 million made available to Egypt. We expect this increasingly close cooperation to continue in the years ahead.

FINDING PROJECTS FOR OBLIGATION

Senator Kasten: What difficulties does the mission face in finding viable projects each year in order to obligate the mandated funding?

Mr. McPherson: In the earlier stages of our assistance relationship with the Government of Egypt, the mission had difficulties developing a sufficient number of viable projects to fully absorb the level of funding. We have now developed shelf projects to provide funding alternatives in the event problems occur in negotiating a particular planned project. Moreover, our working relationship with the Government has improved to the point where in FY 1985 we have already reached agreement on over 80 percent of our program portfolio and obligated $546.4 million, or 67 percent, of the $815 million that was appropriated.

IMPROVING DEVELOPMENT FOCUS

Senator Kasten: The program has been described, I believe, as diffuse and lacking consistent development focus. What has caused this, and what is A.I.D. doing to better focus and concentrate the program?

Mr. McPherson: There is no question that the program in Egypt is large: in the level of resources it transfers; the variety of activities it supports; and the different ways in which it delivers the goods. The focus will always be broader than most conventional programs because of: the development needs of Egypt; our preeminent role in supporting that development; and the number of U.S. and Egyptian firms, public institutions, and development professionals participating in the effort. Nevertheless, it is important to remember that a large portion of this assistance has focussed on support of three basic objectives: (1) rebuilding of the necessary infrastructure required to provide adequate economic activity and services to the citizens; (2) upgrading the human resource capabilities of Egypt; and (3) expanding productive activities in agriculture and industry. This represents the basic focus of our assistance program to Egypt over the last ten years.

For the future, we are trying to achieve a smaller number of discrete activities and to further sharpen the program's focus. To this end A.I.D. has systematically begun drawing up sector plans to outline strategies for addressing development problems, ensure accord with Egyptian priorities, and delineate implementation steps. In concert with a sharper development focus, both governments are concentrating the program into fewer, larger projects. Efforts in the decentralization program, water and wastewater and agriculture are examples of this consolidation. The number of A.I.D. projects is steadily declining from 78 in FY 1983 to 69 in FY 1984, 65 in FY 1985 and possibly 54 by the end of FY 86. Finally, A.I.D. and the Government of Egypt have deobligated funds that either were residual or were committed to projects that were not performing as expected. The authority to deobligate will be used again this fiscal year.

A.I.D.'s POLICY REFORM LEVERAGE

Senator Kasten: In A.I.D's attempt to influence the Government of Egypt to change its costly and complex set of price controls and subsidies, what leverage does the Agency have, given the political nature of this program?

Mr. McPherson: A.I.D. has achieved important policy progress with our large development program in Egypt. This has been done by concentrating our policy dialogue on certain key areas which have high development priority and in which we have been able to commit substantial resources over a sustained period.

For example, major investments in electrical power generation have supported several electricity rate increases. Electricity has kept pace with inflation. Other energy prices have fallen behind. The power sector remains a high priority for our policy dialogue and one in which the World Bank, the IMF and other donors have also been engaged, thereby enhancing overall prospects for change. The water and sewer sector has also been a major program component for us and a focus of policy dialogue. For the first time in our assistance relationship, the Government of Egypt enacted water tariff increases in Cairo and Alexandria in 1983-84. Discussion of sector reforms is continuing, including institutional improvements to ensure proper operation and maintenance of water and sewer systems, especially in Cairo.

A third example is the agriculture sector. The priority that we and the Egyptian Government place on increasing food production and small farm productivity has encouraged the reform of pricing policies that influence farmers' production decisions. In the last two years, procurement prices for wheat, export onions and groundnuts have been raised by one third. We hope to support further reform by initiating a major new national production campaign project in FY86.

LOSS TO PROJECT GAINS DUE TO LOW EGYPTIAN PRICES AND TARIFFS

Senator Kasten: How will the recurring operations and maintenance costs of U.S.-funded projects be paid if the Government of Egypt keeps prices and tariffs too low to recoup costs, and how is A.I.D. insuring that project gains are not lost?

Mr. McPherson: The A.I.D. Mission and the Government of Egypt have an on-going dialogue about subsidized prices and the need to pay for operations and maintenance. The Egyptians understand this problem and provide adequate funds to pay for operations for many A.I.D. projects, such as the telecommunications agency ARENTO and the Mehalla textile plant. In other cases, sufficient funds are not available, either from general tax revenues or tariffs. In such cases, we encourage the Government to increase tariffs and prices.

The Government generally follows a gradual approach to price increases for political and social reasons. Therefore, the pace of price increases tends to be slower than would be economically desirable. For example, electricity prices, which were about one sixth of world-market prices two years ago, have been increased during the period to about one fourth of world market prices. The Egyptian Electricity Authority, however, makes adequate funds available for operations and maintenance.

In the area of water and wastewater, we have carried on extensive discussions regarding adequacy of funds for recurring costs. These discussions resulted in a 1983 Memorandum of Understanding which calls for financial viability and other needed measures. As one result, the Ministry of Housing and Public Utilities has asked the National Assembly to approve a water tariff increase to cover 35% of operations costs coupled with a 10% surcharge for wastewater. Planned increases would enable the Egyptian Government to cover 100% of operations costs for water and 50% for wastewater by 1990. In addition, the Government plans to study operations and maintenance costs, improve worker recruitment, and obtain expatriate advisory services in management and training.

P.L. 480 AND COMMODITY IMPORT PROGRAMS AND HOW IT AFFECTS PRICING AND SUBSIDY POLICIES

Senator Kasten: Do A.I.D.'s P.L. 480 Program and Commodity Import Program (C.I.P.) reinforce the continuation of the same pricing and subsidy policies which A.I.D. is trying to get the Government of Egypt to change?

Mr. McPherson: There is that risk, if we are not careful. Both P.L. 480 and the C.I.P. are being used to the extent possible to promote reforms in agricultural and industrial policy, including reforms of the pricing and subsidy system.

In connection with provision of wheat under our P.L. 480 Title I Program, our policy dialogue has encouraged the government to do away with administered prices in order to stimulate increased domestic food production. This is part of the Self-Help Agreement that is integral to our P.L. 480 Title I Program. In the past two years, the Government has sharply increased farm procurement prices for wheat and stepped up amounts procured. Due to the domestic shortage, wheat sold on the free market has reached world market prices. We expect this to have a positive impact on production.

However, we remain concerned about government subsidies on consumption. In this regard last October, the Egyptian Government took the politically significant step of introducing a two-piaster loaf of bread to replace the one-piaster loaf and doubling the price of flour. The Government believes it must move slowly to avoid adverse public reaction. It is noteworthy that the Government did not rescind the latest price increases for bread despite localized civil disturbances.

With the C.I.P. Program, we are particularly concerned because it is used by the already heavily subsidized public sector. A.I.D. and the Egyptian Government are making an effort to insure that the public sector users of our funds pay a price or are provided financing terms comparable to what private sector investors would pay. By equalling that cost of capital, we try to reduce the subsidy. Moreover, our policy dialogue with the Government includes reduction of industrial subsidies and administered prices. Nevertheless, your concern is justified and it is one of the reasons we have not favored increases in the public sector program assistance component of our program.

CONFLICT IN STRATEGY

Senator Kasten: How does A.I.D. rationalize the apparent conflict in its strategy?

Mr. McPherson: The question presumably refers to potential conflict between political and economic development objectives of the A.I.D. program in Egypt. In fact, the A.I.D. strategy serves both objectives and is the product of close consultation and agreement between A.I.D. and the Department of State. Our longer term strategic objectives are importantly supported by economic and social progress in Egypt which requires movement in the short-term on structural adjustment and policy reform. Our A.I.D. program aims to strike a balance between short and longer term strategic objectives. An exclusive focus through our A.I.D. program on short-term political objectives would be detrimental to our longer term development impact. We feel the present strategy therefore is well integrated.

NATURE OF THE AID PROGRAM IN EGYPT

Senator Kasten: A.I.D., as I understand it, uses a large portfolio of projects as the principle means of distributing economic support funds to Egypt. The difficulties caused by such a large program raise questions regarding any actions being taken to make the large portfolio more manageable.

Do these actions include adopting a mode of assistance which is less staff-intensive to allow mission staff to more effectively accomplish their objectives?

Mr. McPherson: A.I.D. is doing several things to more effectively manage the large portfolio in Egypt. With the Government of Egypt we are concentrating the program into fewer, larger projects and sector programs. Our staff in Cairo is expanding the use of computers and word processing equipment to provide a reliable flow of information which facilitates project implementation, review, and evaluation. We are constantly searching for the most effective ways to reduce the staff intensity of our assistance program in Egypt. However, the development objectives of our assistance (which support both on short and longer term foreign policy objectives) require intensive staff involvement in the design and implementation process where Egyptian technical and management skills are short and where specific projects must be formulated to meet development needs.

LOWERING EGYPT'S PIPELINE

Senator Kasten: How far do you feel A.I.D. can realistically expect to lower the assistance funding pipeline if most of the assistance continues to be in the form of large capital projects?

Mr. McPherson: Although we plan to continue to fund large capital projects, especially in the water/wastewater sector, we do not necessarily expect most of our assistance to be in this form. The Decentralization Program and the National Agricultural Production Project, for example, will absorb large funding outlays. However, those capital projects we do undertake will add less to the pipeline of funds than past projects inasmuch as there is now a larger selection of feasible projects than in the past, and we will therefore probably fund some new projects incrementally rather than all at once. Further, many of the capital projects for which funds were obligated previously are reaching the stage where expenditure rates should increase. The pipeline for these projects will decline rapidly.

EGYPT'S INSTITUTIONAL, MANAGEMENT AND TECHNICAL CAPACITY

Senator Kasten: What has A.I.D. done to help build Egypt's institutional, management, and technical capacity to assume responsibility for U.S. funded projects?

Mr. McPherson: Our A.I.D. program increases institutional, management, and technical capacity in three ways:

— Specific projects such as Irrigation Management Systems, Decentralization, and Suez Community Health, focus on improved management and more autonomous decision making.

— Management and technical training components are an integral part of most projects in addition to our Technical Transfer and Manpower Development and Peace Fellowship projects.

— Increasing emphasis in project design is being placed on operations and maintenance practices, including assurance of adequate revenue to enable operating entities to meet maintenance costs. Examples include our Water/Wastewater activities, the Decentralization program and Development Planning Studies.

USING SECTOR GRANTS IN EGYPT

Senator Kasten: I know that through several non-project distribution modes, some relief from the constraints of implementing a large project portfolio is offered. What progress has A.I.D. made toward the use of sector grants in Egypt?

Mr. McPherson: As I mentioned earlier, A.I.D. has made significant progress toward the use of sector level funding during the past three years. Specifically, this effort has resulted in (1) combining five projects into one coordinated decentralization program, (2) phasing 13 agricultural projects into three sector-wide programs, (3) redirecting hundreds of small science and technology research activities into three major programs linked to mission strategy and priorities and (4) reducing 35 separate family planning activities into a more focused program of 18 activities.

AID PLANNING TO DIMINISH ITS COMMODITY IMPORT PROGRAM (C.I.P.)

Senator Kasten: Why is A.I.D. planning to diminish its commodity import program (C.I.P.)?

Mr. McPherson: The C.I.P. is a component of AID's balance of payments support to Egypt. In combination with planned cash transfers, that support is proposed at the same level of $300 million in FY 1985 and FY 1986. Egyptian Government policies continue to stimulate increased consumption at the expense of development investment. Higher non-project assistance levels without a positive economic policy framework could promote further consumption growth and would most likely be at the expense of planned, targetted development projects.

MONITORING EGYPT'S USE OF CASH TRANSFERS FY 1984 AND FY 1985

Senator Kasten: How does A.I.D. plan to monitor Egypt's use of the cash transfers provided in fiscal years 1984 and 1985?

Mr. McPherson: We have sought and received written assurances from the Government that the Egyptian pound equivalent of these cash transfer monies will be used for development. However, project-type monitoring is not possible since cash grants, which are made for balance of payments purposes, are deposited in a country's central bank and commingled with other foreign exchange resources. Misconceptions about cash transfers in Egypt have perhaps arisen because of the Government's agreement in covenants signed in 1984 and 1985 to budget an equivalent amount of its own local currency for use in the health and housing sectors. The Government has no obligation, however, to use the foreign exchange from cash transfers in any particular sector; the only agreed restriction is not to use it for military purposes. We will be assured, however, that the Government of Egypt does use equivalent amounts of its own currency for development purposes.

CONTINUING CASH TRANSFERS TO EGYPT

Senator Kasten: Will A.I.D. continue the cash transfer in subsequent years as part of the assistance package for Egypt?

Mr. McPherson: The A.I.D. program in Egypt has always contained an element of balance of payments support, including both the Commodity Import Program and P.L. 480 Title I food aid. The Government of Egypt has been requesting for some time that part of our assistance be provided as a cash transfer. They note that virtually all of Israel's assistance is via cash transfers. Our first cash transfer to Egypt occurred in FY 84. We provided $101.9 million in funds deobligated from previous projects. Congress has already mandated that another $100 million be provided as a cash transfer in FY 1985 out of the approved $815 million appropriated. Our request that a $100 million cash transfer be provided to Egypt in FY 1986 continues this mix.

We have made this request for a cash transfer in FY 1986 in response to the Egyptian Government's desire for assistance in dealing with a worsening balance of payments, including a rising overall debt service problem. However, AID does not support a program in which all or even a major part of our program would be cash transfer. Both the Government of Egypt and A.I.D. agree on the value of our project assistance. Recent Egyptian requests for increased assistance, while requesting a cash transfer, have also requested increased project assistance.

Therefore, we conclude that a program of balance of payments support, including some cash transfer, and a strong project portfolio represents the best mix of assistance to Egypt under the present circumstances.

If the Government of Egypt were to move forward with a major structural adjustment program, we stand ready to consider the possibilility of increasing the cash transfer element of our balance of payments support to Egypt.

INTEREST EARNED BY FGYPTIAN GOVERNMENT

Senator Kasten: Although the Comptroller General has ruled that interest earned by lower level Egyptian Government agencies on A.I.D. grant funds does not have to be returned to the U.S. Government, does A.I.D. attempt to save interest costs to the United States by delaying disbursements until they are needed at the local level?

Mr. McPherson: The Comptroller General's ruling of November 28, 1984 dealt with the issue of whether the United States should recover interest earned on A.I.D. grant funds held in time deposits administered by local and provincial elements of the Egyptian Government. These funds were provided through our decentralization program. A fundamental purpose of this program is to develop the capacity of local level government to plan, manage and implement local development projects in response to locally determined needs. Management of financial resources is a fundamental element in this process.

The Comptroller General ruled that the transfer of funds by A.I.D. to the Central Governing Body, ORDEV, to be further disbursed to the governorates and the local village council upon the approval of local subprojects, was a disbursement for grant (project) purposes. Therefore, the interest earned in connection with such disbursements belongs to the Government of Egypt and may not be recovered by the U.S. Government. A.I.D. may not delay disbursements to ORDEV under its Agreement with the GOE. The disbursements made to ORDEV are in accordance with the Agreement for legitimate project purposes and are not in advance of need.

AID WORKLOAD

Senator Kasten: In the forward to his semi-annual report to the Congress, the Inspector General of AID makes the following observations:

"Currently, AID has approximately 2,600 active projects with obligations of over $31 billion. As of September 30, 1984, the Agency had a total of 3,468 full-time U.S. direct-hire personnel, including clerical and support, of which 1,510 were overseas. These numbers suggest the dimensions of the burden being shouldered by all levels of management, at home and overseas, in this Agency. They also pose the practical question of whether the Agency has reached or exceeded its capacity to effectively manage its portfolio of foreign aid enterprises in over 70 lesser developed countries of the world...."

First of all, do you agree with the Inspector General's numbers, quoted above? And I would like you to address the question that he raised -- and which I believe is a very valid one -- especially given the numerous examples of management problems that have come to our attention, management problems which seem to be the result of trying to do too much with too little.

Mr. McPherson: First of all, we do not agree with some of the numbers cited by the Inspector General. His report apparently counted as separate projects those elements of a single project which were funded from different accounts. The report also counted projects with both loan and grant elements as two separate projects. As a result, the number of 2,600 projects cited by the IG is inflated. Our estimate is that there are about 1,600 active projects. Likewise, we disagree with IG's $31 billion figure for obligations. Our estimate of all years' cumulative obligations for all 1,600 active projects is $19 billion. However, a better measure of the workload for AID staff would be the remaining undisbursed pipeline for those projects, which is $7.1 billion as of the end of Fiscal 1984. The personnel numbers are correct as stated.

As to the matter of management burden, there is no question that the workload on AID staff -- regardless of how one counts the number of projects -- is very heavy indeed. But we are taking some steps to get a better handle on project management. For example, in some of our African programs, we have shifted more to a sector assistance mode which reduces staff management burden. We have cut back on the frequency of required Country Development Strategy Statements and have reduced requirements for budget information from the field. We have cut back on the number of new projects we are initiating. We have reduced the complexity of our AID/W project reviews by increasing delegation for project design and approval to the field. And we are also looking at ways of reorganizing some of our AID/W functions to improve our efficiency.

Senator Kasten: Mr. McPherson, let me follow on with this subject in a little more detail.

Your FY 1986 budget request is going to require substantial reduction in personnel, I understand, although you are still recommending new projects, and some increases. Given past history, Congress will probably provide some increase.

Don't you think that perhaps it is time to in effect stop and catch up?

Maybe what we should do is call a moratorium on new AID projects, until your management capability can catch up. What do you think?

Mr. McPherson: Actually, our overall budget request is virtually the same as the appropriation for the current year -- our request for Development Assistance where we have the most new projects is down somewhat while ESF, excluding any add-on funding for Israel, is up slightly. Moreover, the number of new projects we are proposing is declining significantly. In FY 1986, we have proposed a total of just 160 new projects, compared with 242 new projects last fiscal year and 202 this fiscal year. That is a 25 percent drop from this year to next. So I would agree with the propositon that a reduction in new projects is one way to get a better handle on management concerns.

However, I believe imposing a moratorium on new projects would be a mistake. We need to have the flexibility to tailor our aid program to meet emerging needs and take advantage of new opportunities. We need to be able to follow up on successful pilot projects and to undertake further phases of effective development initiatives. We need to be able to adapt our programs to changing conditions in recipient countries. And we must be ready to pursue chances to stimulate policy changes when the climate is right.

I think our management capability is catching up, through the changes I have outlined, without taking the drastic step of cutting off the initiation of new projects.

Senator Kasten: What would your budget request be -- and you can supply this for the record -- for the Functional Accounts if you factored out the funds you are requesting for new starts in FY 1986?

Mr. McPherson: Leaving out the $392,117,000 planned for the 117 new projects in the Functional Development Assistance Accounts, the request would be $1,288,783,000.

HOST COUNTRY CONTRACTING

Senator Kasten: On February 28, Senator Inouye and I sent you a strongly worded letter with respect to the complete breakdown which occurred at A.I.D. with reference to implementation of the health assistance vitalization project in El Salvador.

Your response late last week in essence agreed with our criticism, and you have taken action with respect to the case.

One of the causes of this breakdown was utilization, or I should say "attempted utilization" of a host country contract. This highlights the concern this Subcommittee has expressed on numerous occasions, to say nothing of the continuing and repeated reports by your Inspector General that such contracting methods have not been successful.

Indeed, this Committee is convinced that this very basic management failure has resulted in waste, delay, and loss of intended economic benefit. We have encouraged you in the past to do something, but all of your efforts have failed to improve this situation.

Can we now expect you to pull back from host country contracting, or must the Committee put a limitation or stop to it?

Mr. McPherson: We share your concern when problems in implementation occur--due to host country contracting or any other reason. Indeed, our policy was amended in 1982 to remove A.I.D.'s stated preference for host country contracting. In response to the Inspector General's latest audit on this subject, an interagency Task Force has been reviewing the host country contracting process to determine what steps should be taken.

The Task Force has concluded: (1) the Agency should preserve the flexibility to utilize host country contracting when that method of implementation is feasible; (2) the procedures and guidelines, with minor exceptions, are explicit and adequate; (3) the major problem appears to be the inadequate implementation of existing procedures, with particular reference to assessments of host country institutions' contracting capabilities. To remedy this problem, guidelines will be amended, and we are incorporating host country contracting in internal control reviews and reporting requirements, as well as reviews which are to be conducted in connection with an evaluation of A.I.D.'s procurement system. A worldwide message on this subject will be sent to all A.I.D. Missions. In addition, we are reviewing current A.I.D. training programs to assure host country contracting procedures and requirements are fully understood by employees.

We believe these steps will assure the necessary assessments of host country contracting capabilities will be undertaken as a basis for determining the best method of procurement for A.I.D.-financed goods and services.

INSPECTOR-GENERAL'S REPORT ON A.I.D. PARTICIPANT TRAINING PROGRAMS

Senator Kasten: As you know, this subcommittee has involved itself quite extensively in the development of your scholarship program under the Jackson Plan. The primary reason we have done this relates to the fear that we have that the Agency will simply handle this program like it has handled participant training programs, that is to say, not very well.

While participant training programs are potentially one of the most lasting and important contributions we can make to L.D.C. development, unfortunately, an I.G. report in December of last year, finds a number of major deficiencies. Some of those are as follows:

-- 1. A.I.D. is not making an adequate assessment of candidates for training.

-- 2. Participants are not qualified in English or academically, but are being sent nonetheless for training, resulting in waste, disappointment and delay.

-- 3. You do not follow up adequately to insure that return participants are being used on development projects nor are you evaluating the effectiveness of their training.

-- 4. A.I.D. lacks the data to oversee adequately the contractors who now handle about two-thirds of all participants. The I.G. Report found that A.I.D. has no effective way of assessing and comparing contractor performance, cost, or effectiveness. Amazingly, A.I.D. essentially does not know how many, how well, and at what cost participants are being trained.

These problems have persisted for years, with your I.G. and G.A.O. having reported on them on several occasions. What is your response to the latest findings of your I.G.?

Mr McPherson: --1. It is A.I.D. practice that each project paper specify human resource requirements and implications as specifically as possible, whether or not the purpose of the project is human resources development. The project paper specifies how the training will be provided and the qualifications required for trainees. A.I.D. must approve all candidates nominated and must be vigilant to ensure that unqualified candidates are not selected simply because of their position or status.

Some USAID Missions will this year develop Country Training Plans (CTPs) to provide a systematic and comprehensive overview of country training needs, priorities and resources. These plans will also identify fields for which additional needs assessments need to be conducted. In addition, A.I.D. is developing a methodology to determine the availability and quality of candidates for training early in project design stages. The CTPs and assessments will help ensure appropriate development of project training and candidate selection plans.

--2. Participants should be qualified both academically and in English language proficiency except in programs which (1) are conducted in the nominees' native language; (2) use interpreters; or (3) take place in a third country where English is unnecessary.

A series of English Language proficiency tests developed and maintained by the American Language Institute of Georgetown University (ALIGU) under a contract with AID is given to all participant candidates. A revised and consolidated battery of ALIGU tests will be supplied to our Missions in May and will replace older test forms. Nearly all U.S. universities and colleges require that enrolling participants obtain an acceptable score on the Test of English as a Foreign Language (TOEFL) which is administered by the Educational Testing Service and is revised and administered several times a year. In addition to English language tests, A.I.D. participants must qualify for several of the U.S. examinations (ex., S.A.T., G.R.E., G.M.A.T.).

In 1985 A.I.D. will conduct a review of a sample of participants to determine whether they are performing at a satisfactory level in their U.S. institution. This sampling will be conducted by the Office of International Training. When participants are not performing acceptably, the appropriate AID office and the contractor will be advised.

--3. A.I.D. Missions do follow-up and evaluate the effectiveness of their training programs. Consultations with Missions show that most A.I.D.-sponsored participants have returned to work on the jobs anticipated by the project. Most have had to agree to a certain number of years of service, or to reimburse the costs of training. After a time in the particular specified job a participant may move on to another job in the country, continuing to make an economic contribution. Participants are enthusiastic about their U.S. training and the contacts they established in U.S. communities. This is a very important aspect of the training program.

A.I.D. is placing new emphasis on systematic follow-up, especially in the months immediately after return to country. The Agency is currently developing a microcomputer monitoring, follow-up and evaluation system for use by all A.I.D. Missions.

--4. The Agency is also conducting a contractor cost study that will be completed by October 1985. This cost effectiveness study is looking primarily at the administrative (and overhead) costs that contractors charge to perform a variety of participant training services. It will focus on participant training activities performed in FY 1984 and will recommend reasonable ranges of costs for contractors to perform certain training activities.

The Agency is developing procedures to evaluate contractor bids and monitor participant training contractors so that they can be managed more cost-effectively. We are developing a standardized contracting format (including budgets) to evaluate proposals and contracts. We are also developing standard scopes of work and reporting formats for contractors to use in reporting participant data and contract progress. This will ensure that contractor costs can be compared and analyzed more easily by the Agency in the future.

We believe these activities ensure contractor compliance with Agency policies, procedures and regulations.

HEALTH ASSISTANCE

Senator Kasten: You say in your prepared statement that "we are on the verge of a 'Health Revolution.'" You go on to say that your "support for key research is permitting A.I.D. to stay on the cutting edge of technology for child survival....A.I.D. is committed to maintaining this leadership...."

You are requesting $76,711,000 less for health activities in FY 1986 than was appropriated in FY 1985. In addition, you are not requesting any funding at all for the child survival fund.

How can A.I.D. maintain its commitment to leadership in the health field with over $100 million less in funding for health and child survival?

Mr. McPherson: With the extra funds ($85 million in health, nutrition and child survival) appropriated by Congress in FY 1985 A.I.D. began new and expanded child survival activities through PVOs, UN organizations and bilateral programs. These new activities are being developed and funded this year, but will in many cases last several years. The momentum which we have gained this year will carry over through the next year or so with the funding level we have in FY 1985 and that which we have requested in FY 1986. These programs take some time to get off the ground, and we are being very careful to select and develop those that will have a real impact on child survival.

Furthermore, this year A.I.D. will commit $31.5 million -- or roughly 13 percent -- of its health budget to basic research directed at the development and testing of new health technologies. We have virtually doubled our budget for health research and we believe that this puts us in a firm leadership role in the development of technologies for child survival.

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Senator Kasten: The Administration is in the midst of negotiating the second replenishment for IFAD. Can you give the Subcommittee some idea of how those negotiations are going, and specifically, can you give us an idea of OPEC participation?

Mr. McPherson: Negotiations on a second replenishment for IFAD have been protracted due to two points: the inability of the OPEC donors to indicate a firm level of contribution to the second replenishment and the issue of burden-sharing ratios between the OPEC and OECD donors.

After two years of debate, the OPEC donors are still unable to commit to a firm level of contribution to the second replenishment. They have said they would agree to aggregate levels that result implicitly in a 40% OPEC - 60% OECD burden-sharing ratio. Until the OPEC donors can indicate how much they are willing to contribute, further progress is unlikely.

The OECD nations believe that the OPEC donors should be held to the original principle that the contributions of the two groups be "as close as possible." The U.S. believes that this principle prescribes 50-50 burden-sharing. However, in recognition of OPEC's current economic difficulties, the United States is willing to accept a higher OECD share up to the 58 percent share of the last replenishment.

Furthermore, the U.S. believes that the principle of burden-sharing can be maintained while accommodating changes in OPEC's economic circumstances by reducing the amount of OPEC's contribution and consequently the overall replenishment level.

Regarding the possibility of an Administration request for funding for IFAD in FY 1986, that decision must await further progress in the replenishment negotiations. If agreement is reached on a second replenishment in the near future, the Administration will consider an appropriation request to begin payment of the U.S. pledge.

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Senator Kasten: AID's Center for Development Information and Evaluation recently completed a six month evaluation of the International Fund for Agricultural Development.

The report was basically positive, with a few recommendations for improvement, including: more experimental activities in women in development; better project-level monitoring and evaluation; and the need to strengthen IFAD's influence over its projects.

How do you view this evaluation, and what does AID intend to do to see that some of its recommendations are carried out?

Mr. McPherson: AID's evaluation of IFAD was undertaken at my personal request to enhance our understanding of IFAD's program and operations. The Center for Development Information and Evaluation is a separate entity within AID which carries out technical evaluations of AID's, and on occasion other donor's projects. I am pleased with the methodology of this evaluation and, although few of IFAD's projects are far enough along to estimate food production impact, the mid-term assessment of these 19 projects suggests that the eventual impact will be significant. Additionally, the beneficiaries of these projects are the small farmer and landless poor which IFAD was established to target in its development efforts.

Regarding our ability to influence IFAD's activities so as to respond to the recommendations of AID's assessment, we have a number of avenues at our disposal.

First, the United States enjoys a permanent seat on IFAD's Executive Board and is therefore in a position to review and comment on all projects presented to the donors for approval. Our interventions in IFAD's Executive Board make it clear that the U.S. thoroughly scrutinizes all of IFAD's project and policy proposals.

It is during this process of Executive Board deliberation that the U.S. can monitor the extent to which IFAD can and does influence its own projects. As you know, IFAD is unable to appraise and implement its own projects, but can participate in project identification and supervisory missions. We encourage IFAD to participate in as many of these missions as their staff size will allow, and to keep abreast of project progress through disbursement cycles, constant communication with cooperating institutions and monitoring and evaluation reports.

Due to the urgings of the U.S. and other donors, IFAD undertook a mid-term review of 14 of its projects last year. We will continue to encourage IFAD to conduct periodic project evaluations, and to strengthen the monitoring and evaluation systems which are built into each project. We recognize, however, that a majority of IFAD's projects are still in the early stages of implementation, and that impact evaluations on all but a few projects cannot be conducted for some time. Additionally, the limitations of a small staff must be kept in mind when establishing the institution's operational priorities.

Second, we have recently entered IFAD into AID's Early Project Notification System, whereby AID missions are informed of upcoming multilateral institution activities and are asked to comment on the merits of the project, the policy environment of the country and the consistency of the proposed project with AID's own efforts. By conducting in-country assessments of project proposals far in advance of actual Board approval, we can identify and discuss potential problems with IFAD before and during loan negotiations. This input can and has lead to IFAD making modifications to project documents in response to USG concerns.

Third, IFAD conducts a number of symposiums on development sectors and issues -- such as irrigation, rural development and women in development -- in which AID participates and shares experiences and expertise. In fact, IFAD and AID will co-host an experts consultation on small farmer credit systems this summer to exchange information on agricultural credit case studies and approaches.

You can be sure that AID will continue to closely monitor IFAD's activities and will continue to work with the Fund to strengthen its role as a highly-specialized development institution.

LDC DEBT REPAYMENTS

Senator Kasten: What choices other than repeated debt reschedulings, are being considered to help countries with serious economic problems give priority to taking necessary steps to improve their economic condition?

Mr. McPherson: To improve economic conditions in developing countries and their ability to pay their bills, the Agency for International Development (AID) pursues three distinct but intimately related strategies: first, provision of project assistance that contributes to the developing countries' productive capacity by adding to their stock of capital, training their manpower and improving their institutional capability. This assistance emphasizes projects that have a favorable impact on the balance of payments, such as those stimulating new export development or the production of foodstuffs or essential raw materials currently being imported (when this can be done efficiently). Second, AID provides Public Law 480 (PL 480) assistance and Economic Support Funds (ESF) to enable host governments to finance imports of food, raw materials, spare parts, and capital goods. And third, AID supports policy reforms that improve the functioning of basic government institutions and provide greater incentives for efficient private investment and production.

The latter effort deserves elaboration. The cumulative counterproductive consequences of past policy errors have grown increasingly apparent to AID and to national policy makers. Projects and programs can be wasted where national policies are inappropriate. AID is pressing for policy reforms through continuous policy dialogue intended to educate and persuade, through program assistance that offsets some of the short-term economic and political costs of reforms, and through negotiation of corrective "self-help" measures conditioning the release of ESF resources, PL 480 Title III, and local currency counterpart funds. To the extent that policy reforms are effective and that project and program assistance is efficiently utilized, reliance on debt rescheduling and foreign assistance can be reduced, and developing nations will become better able to service foreign debt while expanding imports.

Senator Kasten: How can economically troubled countries avoid having to commit resources to service increased debt when these countries need to continue allocating resources to programs that help improve living conditions?

Mr. McPherson: There is indeed serious competition in the use of scarce foreign exchange by economically troubled developing countries between maintaining essential imports and servicing the debt. Countries in this situation have been forced to resort to a combination of measures: (a) cutbacks in imports, including essential imports that contribute to a decline in their per capita real Gross Domestic Product (GDP); (b) requests for debt rescheduling; and/or (c) obtaining new loans from international agencies, bilateral donors, or commercial banks. Nonetheless, the United States Government (USG) attaches great importance to the payment of debts as large-scale defaults could deal a severe blow to the whole structure of private international lending and investment.

The Agency for International Development's (AID's) approach is to provide fast-disbursing balance of payments assistance (or Commodity Import Programs) to the extent that AID's limited available resources permit. Provision of such assistance is conditioned on the adoption by developing countries of self-help measures that would correct the underlying causes of their plight including, where appropriate, reduction in export taxes, adjustment of the exchange rate, relaxation of exchange controls, removal of artificial ceilings on farmgate prices to provide incentives for the production of foodstuffs, and generally removal of administrative controls that distort the allocation of resources and prevent prices from reaching their equilibrium level. For the longer term, AID's program favors the development of projects that would permit countries to expand and diversify their exports and to reduce their dependence on imports when efficient import-competing industries can be developed.

Senator Kasten: When considering continued assistance to countries with repeated debt reschedulings, is the ability to service additional debt considered in deciding the form of the aid to be provided?

Mr. McPherson: The answer is affirmative. In such instances, assistance is generally provided in the form of grants or loans on highly concessionary terms (30 to 40 years, 10 years grace, interest rate of 2 to 3 percent). In addition, the aid provided to such countries might include a substantial balance of payments assistance component (to finance importation of raw materials, intermediate and capital goods), while project aid will emphasize projects that tend to relieve pressure on the balance of payments over the longer term, particularly those that expand and diversify exports. The assistance also generally seeks to support the adoption of appropriate economic adjustment policies that will reduce the need for balance of payments support in the future.

Examples of countries that suffer from debt servicing problems and have received substantial United States (US) economic assistance along the lines described above include the Sudan, Costa Rica and Jamaica.

Senator Kasten: Can AID mitigate the possibility that countries will not be able to service increased debt and continue the debt reschedulings?

Mr. McPherson: The Agency for International Development (AID) concentrates on assistance and advice that improve the developing countries' productive capacity and the efficiency with which they utilize resources. In turn, such improvements add to a nation's access to foreign exchange and to its ability to service debt. While most developing nations are now making progress in these respects, some have incurred debt service obligations that are large relative to both current and prospective export earnings. We are providing large amounts of economic assistance to several nations confronting serious debt management problems, including Sudan, Liberia, Zaire, Jamaica and the Dominican Republic. We are especially concerned about these cases and are making special efforts in these countries to support the policy reforms needed, including correcting overvalued exchange rates, raising artificially depressed farmgate prices, and eliminating or limiting the scope of parastatal monopolies. While AID's assistance tends to mitigate the debt servicing problem, that problem is so severe for some LDCs that further debt rescheduling may be necessary.

US CONDITIONALITY IN ITS ECONOMIC ASSISTANCE PROGRAMS

Senator Kasten: How, specifically, does AID coordinate with Departments of State and Treasury to ensure that the US Government's position on conditionality is consistent--that we are not supporting one set of goals in the IMF and another, possibly conflicting set, at the bilateral level?

Mr. McPherson: The Agency for International Development's (AID's) views on appropriate International Monetary Fund (IMF) conditionality arise in the context of specific country programs. We are concerned with cases where AID has a substantial program in the country, especially when an aspect of the AID program addresses the need for macroeconomic adjustment. In these cases, AID Missions closely follow developments in the host country macroeconomic policy situation, including negotiations with the IMF. Through various interagency committees chaired by its regional bureaus, AID solicits the views of the Departments of State and Treasury in the formulation of appropriate conditionality in our bilateral aid programs. AID is in frequent contact with State and Treasury to assure that our concerns are taken into consideration in the development of US positions for multilateral agency programs. As a member of the National Advisory Council, the International Development Cooperation Agency/Agency for International Development (IDCA/AID) also has a formal mechanism through which to voice its views on IMF programs. We strive to achieve consistency between our bilateral assistance objectives and the goals we support in the Fund. To this end, we are seeking to improve further our analysis and communications.

Senator Kasten: What has been the experience of the IMF and its programs for such countries as the Dominican Republic, Jamaica, Peru, and Sudan?

What is the AID experience--have the countries complied with AID assistance conditions or has the United States had to waive conditionality to permit disbursements?

Mr. McPherson: The International Monetary Fund (IMF) has had difficulty drawing up agreed programs and securing compliance in all of the countries mentioned. The Agency for International Development (AID) has been generally satisfied with the performance of the Dominican Republic and Jamaica so far, though Jamaica is now facing some very serious problems requiring substantial supplementary assistance. Peru and Sudan, however, have not implemented programs that meaningfully addressed the problems confronting them. A brief summation of recent IMF and AID experience with each country follows:

Dominican Republic: The Dominican Republic (DR) signed a three year Extended Fund Facility (EFF) program with the Fund in

January of 1983. Implementation of the program in the first year did not produce the degree of adjustment sought. Balance of payments performance did not improve and the overall financial requirement of the public sector remained unchanged. The program became inoperative in the second year, i.e., the EFF was suspended owing to inability to reach agreement with the Fund. Continuing discussions between the Fund and the DR authorities took place in 1984, and agreement on a stand-by was reached in March 1985. A new stand-by program was approved by the IMF Board on April 15. A number of actions were already taken by the DR authorities, including moving almost all transactions to the parallel market, floating the exchange rate, adjusting fuel and electricity prices to reflect their true economic value, and initiating a comprehensive program of fiscal reform.

The program of reform supported by the FY 84 Supplemental ESF included exchange rate unification, adjustment of petroleum prices, appropriate restructuring of the electricity tariff, a variety of monetary measures and adoption of a comprehensive public sector budget that would not require financing from the central bank. AID finds that significant success has been achieved in all of these areas.

Jamaica: Jamaica is viewed by the Fund as having made substantial progress in coping with its problems in 1983 and 1984. Remedial measures include unification of the exchange rate, the auctioning of dollars to the private sector (after the government meets its requirements), and allowing the exchange rate to move closer to the market determined rate. The government has made a determined effort to provide a more favorable investment climate for the private sector. On the fiscal side, both current and capital expenditures have been cut, and measures taken to improve the revenue situation. Utility rates and administered prices have been raised, and credit policies tightened. However, Jamaica was not able to meet the IMF arrears targets for September 30 and December 31, 1984. The Fund granted a waiver for September 30 and another one was recommended for December 31. Disbursements under its current stand-by have been allowed to proceed uninterrupted until December, 1984. The Fund is withholding the December 31, 1984 disbursement pending approval of the waiver, and the March 1985 disbursement pending satisfaction of the performance tests. Negotiations between the Government of Jamaica and the IMF are currently under way for a new stand-by that may be approved this summer.

AID finds Jamaica to be in compliance with its own conditionality, which places major emphasis on exchange rate unification, gradual devaluation and a substantial reduction in the list of imports subject to quantitative (quota) restrictions. These measures have been taken.

Jamaica's economic problems have been aggravated by the depressed condition of the bauxite/alumina industry, and the closing of some plants in Jamaica. The drop in tourism as a result of demonstrations early in 1985 is another negative factor. These developments will entail substantial losses in foreign exchange and government revenues, and will require renegotiation of the IMF programs and alterations of performance targets. To ease the impact of the sudden decline in foreign exchange earnings on the economy, significant additional resources will be needed, coupled with further reductions in public sector expenditures.

Peru: An Extended Fund Facility (EFF) arrangement with the IMF was approved in mid-1982 and ran into serious difficulties in the second half of 1983. Performance criteria for the second year (1984) were not established owing to large slippages in program implementation. The public sector deficit increased from 4.8 percent of the GDP in 1980 to 10 percent. In April 1984, the extended arrangement was cancelled and a stand-by was approved for the period through July 1985. Initially, developments were in accordance with the program and Peru made two purchases from the Fund of SDR 15 million each. However, the purchase scheduled for August 15, 1984 was not made because Peru exceeded the June 30 limit on indebtedness of the non-financial public sector. Since mid-year, the fiscal situation has deteriorated substantially and Peru has incurred increasing arrears in its external debt service payments.

In June 1984, AID granted Peru a $60 million loan for disaster/ balance of payments assistance to be disbursed in two tranches of $30 million each. The first $30 million was released. Drawing of the second was withheld pending adoption of an effective stabilization program. AID has recently released the second $30 million tranche on the ground that Peru has complied with this requirement. Self-help measures recently taken include significant increases in the price of gasoline and sales taxes, several mini-devaluations and institution of better control over expenditures. It is not claimed that these actions are sufficient. However, it is felt that failure to grant the assistance needed would accelerate the deterioration of the economy and could endanger the democratically elected government.

Sudan: The country obtained a one-year IMF stand-by of 90 million Special Drawing Rights (SDR) from the IMF effective on June 25, 1984. It drew only an initial SDR 20 million. Subsequent drawings were dependent on observance of performance criteria and agreement on economic policies which could not take place because Sudan had again fallen into arrears with the Fund.

The Sudanese moved to improve incentives to agricultural producers for exports (the government raised payments to exporters from an average L1.42 to the dollar to L2.5 to the dollar); agreed to a more realistic pricing of imported diesel fuel; liberalized the sale of foreign exchange to the private sector, and made some initial adjustments (albeit insufficient) in the exchange rate.

However a number of basic changes were not implemented including the pricing of petroleum products (at their full real cost), effecting the Government of Sudan's (GOS's) promised foreign exchange contribution to the petroleum facility, making adequate adjustments in the foreign exchange rate and establishing controls over the budget.

Part of the AID program, the FY 1984 Commodity Import Program, would have become available once Sudan took the remaining steps. In April the reforms were taken and the program is now being implemented.

Following a military coup in April, the newly installed government is now reviewing the government's economic policies. It is still unclear on what will be changed.

While Sudan needs to adopt further self-help measures to stabilize its economy and set the stage for growth, allowance must be made for the fact that the country confronts four major problems: an insurrection in the South, a serious drought, the influx of half a million refugees from drought-stricken neighboring states, and an enormous debt service burden resulting from injudicious large-scale borrowing from foreign banks in the seventies.

Senator Kasten: How has AID interpreted the Kemp-Kasten Amendment and what impact has it had on AID's conditionality?

Mr. McPherson: The Amendment states that funds made available under the Fiscal Year (FY) 1985 Foreign Assistance Appropriations Act (included within the FY 1985 Continuing Resolution) shall not be restricted for obligation or disbursement solely as a result of the policies of any multilateral institution. An identical provision is contained in the FY 1984 Second Supplemental Appropriations Act.

The Agency for International Development (AID) has provided guidance to its staff on implementation of this Amendment. This guidance emphasizes that the United States Government (USG) must make independent judgments on appropriate conditions to govern particular obligations and disbursements. It specifies that the terms of all programs and understandings with our cooperating countries must be reviewed carefully to assure compliance with the Amendment. AID continues to condition its assistance in support of such programs where this is appropriate. If conditions set by the International Monetary Fund (IMF) or other international institution are deemed appropriate for inclusion in an AID stabilization program, they may be incorporated in our program. On the other hand, AID may add or substitute other conditions considered essential. In each case, AID must make its own analysis, and each must be reviewed to ensure that the conditions are consistent with the Amendment. The guidance makes it clear that AID does not condition its assistance solely on the policies of the IMF or on those of any other multilateral institution.
Senator Kasten: How is AID using the IMF experience in tailoring its balance of payments support to country situations?

Senator Kasten: How is AID using the IMF experience in tailoring its balance of payments support to country situations?

Mr. McPherson: The Agency for International Development (AID) monitors performance and compliance with International Monetary Fund (IMF) targets in major recipient countries where an IMF host government agreement is in force. Even when it is not, the IMF documents are studied by AID Mission staff and management. The Mission Director and staff offer briefings to visiting IMF teams and seek debriefings prior to their departure. While AID will not condition its own program solely on the government's signing an agreement with the IMF, it will nonetheless identify conditions that are basic to the proper execution of AID's own economic stabilization program. In many cases, AID will complement the Fund's conditionality by inserting provisions involving structural adjustments related to long-term growth, such as raising prices paid to producers of agricultural export products, revising tax or tariff structures, and rationalizing interest rates. Continuing consultation between AID and IMF staff, both in the field and in Washington, is particularly important in countries where the IMF does not provide a stand-by or Extended Fund Facility (EFF) arrangement, while AID is implementing a major macroeconomic assistance program (e.g., as in El Salvador, Honduras, Sudan). In that event, AID benefits from IMF expertise in advising host governments on essential stabilization measures, in supporting some key IMF recommendations (which AID also considers essential) in AID balance of payments assistance programs, and in setting the stage for the possible renewal of negotiations with the Fund at a later date. Given the fact that AID has become increasingly involved in providing balance of payments and budget assistance, close cooperation between AID and the IMF has become more essential than ever.

Senator Kasten: Despite loan reschedulings and some lowering of interest charges, LDCs paid $21 billion more to banks than the banks had loaned to them in 1983. The World Bank has warned that such a negative fund flow could impede long-term economic growth in the third world. How has AID taken the situation into account in structuring its development assistance program?

Mr. McPherson: The fact that repayments of bank loans exceed new bank loans for many developing countries is an unfortunate development that has emerged in recent years. It unquestionably impedes economic growth in many of these countries. There is no easy way to remedy this problem. The governments concerned are striving to renegotiate their bank loans on more favorable terms by stretching out repayments over longer periods and by obtaining longer grace periods and lower interest rates. While the Agency for International Development (AID) is not directly involved in rescheduling negotiations, it can, in conjunction with other official creditors, agree to reschedule debts owed to them by the developing countries as part of the Paris Club negotiations.

A negative cash flow from banks cannot be a primary consideration in determining the allocation of development assistance. The amount of such assistance is generally based on considerations such as (a) the country's estimated overall need for US economic assistance as reflected in the size of its balance of payments gap, declining Gross Domestic Product (GDP) and import capacity; (b) the importance of the country to United States political and security interests; (c) the nature of its government and the policies it pursues; and (d) the dangers it confronts and the threat to its stability. These must remain the major considerations for allocating US economic assistance.

Nevertheless, some allowance is made for the debt service situation in structuring the US economic assistance program. When a country faces a serious debt servicing situation, AID attempts to provide as much of its assistance on grant terms as possible. In addition, the US economic assistance package would focus on DA projects that have a favorable (preferably in the short-term) impact on the country's balance of payments position and, where ESF is provided, to program it in the form of quick-disbursing balance of payments support.

CARIBBEAN BASIN PROGRAM

Senator Kasten: The Administration has emphasized major policy changes and management improvements in its Caribbean Basin programs. What success do you feel A.I.D. has had in leveraging reforms of economic policies to date in the region, and can implementation of reforms be accelerated?

Mr. McPherson: A.I.D. has played an important role, in cooperation with other international agencies, in encouraging significant policy reforms in a number of Caribbean Basin countries. Some examples are:

-- Fiscal, monetary, and exchange-rate reforms in Costa Rica which lowered the public sector deficit from 14% to 4% of GDP between 1981 and 1983; cut the inflation rate from 82% in 1982 to 11% in 1983; permitted the rescheduling of debts to public and private external creditors; and resulted in positive per capita GDP growth in 1984;

-- Major exchange-rate adjustments in Jamaica and the Dominican Republic which will improve these countries' competitiveness in external markets;

-- A gradual expansion of the use of the parallel foreign exchange market in El Salvador, and the legalization of a parallel market in Guatemala;

-- Removal of price controls, tariff reform, and divestiture of public enterprises in Panama; and

-- Price liberalization and other measures to encourage livestock exports in Belize.

Following elections in several Central American countries later this year, there will be opportunities for accelerating implementation of policy reforms. But the recent example of Panama demonstrates the dangers of governments' introducing reforms before adequate consultation with, and explanation to, the groups significantly affected by proposed changes.

Senator Kasten: Will provision of large amounts of balance-of-payments support reduce the recipients' sense of urgency in taking necessary (though politically difficult) action to reform policies which have contributed to economic decline?

Mr. McPherson: If balance-of-payments support is given in the absence of conditionality, or of policy dialogue that stimulates major reforms not tied to formal conditionality, necessary policy reforms are likely to be postponed. The results will be even greater structural imbalances, lack of access to I.M.F. resources and commercial bank credits, an inability to reschedule debt, and eventually the need for even more painful structural adjustments.

The U.S. is faced with a difficult choice, however, when countries reluctant to undertake policy reforms are critically important to overall U.S. foreign policy interests. While protecting such interests, A.I.D. is expending a great deal of effort in policy dialogue to obtain as much policy reform as possible. The less willing a country is to undertake needed reforms in these cases, the more serious its economic problems are likely to become and the more dependent it will become on foreign financing. This is an undesirable situation both for the developing country and for the United States.

Senator Kasten: How long do you see that the U.S. must provide balance-of-payments support?

Mr. McPherson: In view of the slower-than-expected expansion of world markets, and continued investment-inhibiting political turmoil in Central America, significant balance-of-payments support for some Caribbean Basin countries is likely to be needed for the rest of the decade.

Senator Kasten: When will Caribbean Basin countries be able to increase their exports so that they earn needed foreign exchange?

Mr. McPherson: Given the poor prospects for most of their major traditional exports, the Caribbean Basin countries need to develop new export products. But even if nontraditional exports grow by a rapid 15 or 20 percent a year, they are starting from such a low base that it will take a number of years before they provide enough foreign exchange to offset adverse trends in traditional exports.

NEEDED POLICY REFORMS IN THE CARIBBEAN BASIN AND AFRICA

Senator Kasten: What, and how realistic, are the policy changes that must initially be made to insure the success of the long-range program in the Caribbean Basin and Africa?

Mr. McPherson: The specific changes needed will vary from country to country. In general, the most important policy reforms needed are:

-- The adoption of realistic exchange rates and the maintenance of exchange rate flexibility to retain export competitiveness and to remove artificial incentives encouraging the substitution of capital for labor;

-- A reduction of fiscal deficits to reduce inflationary pressures, make more credit available to the private sector, and encourage greater efficiency in the provision of public services;

-- A lower and more uniform tariff structure to promote greater efficiency in the production of goods for both domestic and export markets;

-- Positive real interest rates to encourage domestic savings mobilization and a more efficient use of resources, including a more labor-intensive pattern of production;

-- A drastic simplification of government administrative procedures facing exporters;

— Fewer obstacles to, and more consistency and certainty in the treatment of, foreign investment; and

-- Reduction in the role of the state in the productive section and the elimination of inefficiency parastatals.

While policymakers are right to be concerned about the possible adverse short-term political effects of these policy reforms, we believe that more and more government leaders are aware that the political -- and economic -- consequences of not taking remedial action could be even worse. We see a greater willingness in many countries to implement policy reforms, particularly those which restore a country's prior competitiveness in export markets.

A.I.D.'S HOUSING GUARANTY (HG) PROGRAM

Senator Kasten: Mr McPherson. While a recent report on the Housing Guaranty Program for the General Accounting Office has recommended that A.I.D. extend no additional loans to countries where U.S. Government contingent liability for existing loans exceeds the Program's reserve fund assets, I would like to know what the current level of the reserve fund is?

Mr. McPherson: Reserve Fund assets, as of December 31, 1984, are $88.9 million. Of this total, cash assets amount to $52.7 million; the remainder are receivables owed to the Reserve Fund and for which recovery is expected. Many of these receivables are the result of Paris Club debt rescheduling where the U.S. and other creditors have agreed to defer and reschedule public debt including (for purposes relevant to the HG Program) private debts which are guarantied by any of the creditor governments.

Last year, in seeking an appropriation, we described the Reserve Fund problem as a liquidity problem -- with pressure on reserves coming not from defaults but rather payment delays on debts owed by sovereign nations. The problem still exists but we are not asking for appropriations for the HG reserves for FY 85 or 86.

Senator Kasten: What steps has A.I.D. taken in response to the G.A.O. recommendation?

Mr. McPherson: A.I.D. has followed the spirit of the G.A.O. recommendation which is to be careful about new programs in countries where there already exists a large HG portfolio. We also have strengthened our capacity to do country risk analyses. We have not, however, followed the G.A.O.'s rigid numerical formula which would require a cut-off of assistance to certain countries solely because of our reserve considerations. In some cases, the G.A.O. recommendations would have long-term HG loans cut off at the same time U.S. Government policy is to increase the amount of direct U.S. development lending to the same country.

Senator Kasten: How can A.I.D. minimize the contingent liability exposure of the U.S. Government?

Mr. McPherson: Before talking about minimizing liability, I should first define the kind of risk the HG Program faces. We are not operating a guaranty program where outright default or debt repudiation is contemplated. The reason is that virtually all HG debts are in the nature of sovereign debt. Historically, sovereign nations have paid their debts. Ultimately, the risks posed by the HG Program to the U.S. Government are really no different from the risks posed by our direct loan program.

Accordingly, the more practical risk the HG Program faces is the risk of payment interruptions and the impact of these delays on the HG Reserve Fund. These delays generally result from Paris Club debt rescheduling where, under the newer rules of international custom and procedure, LDC debts to private lenders which are guarantied by creditor governments are included among the categories of so-called public debt to be deferred and rescheduled. When payments are to be deferred as a result of Paris Club agreements, HG reserves are used to pay the U.S. lenders during the debt deferral period. Thereafter, such sums are repaid to the HG reserves plus interest.

The way to minimize risks of payment delays is to minimize HG loans to countries where debt rescheduling is contemplated. Under our current procedures, A.I.D. does a country risk analysis before authorizing HG loans to a country. If this analysis indicates a real problem exists, A.I.D. will either decline to guaranty loans to a country or structure a loan guaranty package to limit the amount of debt service payments due during a period of anticipated debt problems.

Senator Kasten: The Program has incurred losses in excess of $20 million on loans which were not guaranteed by host governments. Since the U.S. Government guarantees the loans, should not host governments in turn pledge their guarantees to the United States?

Mr. McPherson: Yes. Since the late 1960s, A.I.D. has required host government guaranties or the equivalent on all HG loans. The loans referred to which do not have a backup host government guaranty were made to private borrowers in the early 1960s. Private borrowers and U.S. builders directly benefited from the loans. The LDC governments were not a party to these loans. They constitute less than 8 percent of the outstanding HG portfolio and will be soon paid off.

Senator Kasten: What is the rationale for not requiring host-government guarantees?

Mr. McPherson: A.I.D. does require host government guarantees or the equivalent and has done so since the late 1960s. In some cases, the host country guaranty is given by a wholly-owned government bank -- usually the central bank -- as opposed to a more formal full faith and credit guaranty issued, e.g., by a Ministry of Finance. Over 92 percent of the HG portfolio is in the nature of sovereign debt.

Senator Kasten: A.I.D. has exempted housing loans from developing countries' debt reschedulings by rescheduling more of its development assistance loans than required. How does A.I.D justify such a use of appropriated money loans to permit Housing Guaranty loan exemptions? What is A.I.D.'s current policy on rescheduling Housing Guaranty loans and has it ceased the above described process?

Mr. McPherson: Over-rescheduling of development loans as a device to ease the burdens on the HG reserve account occurred on two occasions a few years ago and has not been used since. We do not currently plan to continue this practice. A.I.D.'s current policy on rescheduling HG loans is to attempt to minimize those situations where rescheduling will occur but not seek special treatment.

CAPITAL SAVING TECHNOLOGY

Senator Kasten: Recognizing the need for more labor intensive, capital savings tools and methods in the development process, Agency for International Development was directed to support a new and expanded private effort to develop and disseminate capital savings technologies (CST) appropriate for developing countries. In your opinion, Mr. McPherson, has A.I.D's technology transfer initiative emphasized the use of capital saving technology in development projects?

Mr. McPherson: Decisions on what technologies are promoted by A.I.D.'s private sector related activities are based on a rational assessment of the particular economic and financial circumstances in which the specific private sector effort is taking place. Where appropriate in terms of capital and labor availability, capital saving technology is being encouraged. Through our policy dialogue efforts with individual countries, we are encouraging market oriented economic policies. These policies will have a direct influence on investment decisions. The particular mix of signals that investors get from foreign exchange and interest rates, labor laws, taxes, and government regulations will determine what technology package is adopted.

Capital saving, production processes and delivery systems, of course, need to be compatible with the local cultural, economic, environmental, political and social context; involve the local community; be accessible to the poor; locally sustainable; widely replicable; and economically efficient.

Senator Kasten: A.I.D.'s 1984 Congressional Presentation stated that the Agency would "strengthen the ability of public and private decisionmakers to select, develop, adapt and disseminate useful capital saving technologies." How has this been accomplished?

Mr. McPherson: A.I.D.'s portfolio on capital saving technology includes activities from all of the development accounts. These include food production, population planning, health, energy, and small enterprise development. Therefore, Agency Policy Papers and Policy Determinations stress the importance of achieving the objectives of a capital saving technology. These objectives are to increase the incomes of and the development opportunities for the poor, particularly in agriculture and in non-farm labor intensive businesses; to provide improved health care, population planning; and education services to poor people at prices they can afford. To strengthen the ability of public and private decision-makers to select, develop, adapt, and disseminate useful capital saving technologies. A.I.D. is supporting Appropriate Technology International, a private, non-profit, development assistance organization based in Washington, D.C. and operating in Asia, Africa, Latin America, and the Caribbean. ATI's program is concerned with the identification, assessment, and adaptation of technology. In collaboration with indigenous organizations in developing countries, ATI's regional programs develop projects based on cost-effectiveness, commercial viability, economic sustainability and use of technologies adapted to the resource endowment of the rural and semi-urban poor.

CAPITAL SAVINGS TECHNOLOGY AND AFRICA'S AGRICULTURAL PROBLEMS

Senator Kasten: In view of the serious food production problems in Ethiopia, Sudan and other African countries, to what degree has A.I.D. been promoting capital saving technologies as part of a long-term solution to the region's agricultural problems?

Mr. McPherson: A.I.D.'s long-term strategy for helping with sub-Saharan Africa's agricultural problems is centered within the areas of policy reforms, agricultural research and human resource development programs. Capital savings technologies often come about as a result of agricultural research efforts. To cite a couple of examples, agricultural research has identified parasitic insects that will control mealybug and green spidermite in cassava; the result is great savings in imported chemical pesticides, as well as no environmental degradation. Increasing use of various leguminous plants which add nitrogen to the soil has also saved import and application of large quantities of chemical fertilizers.

ATI'S RELATIONSHIP WITH A.I.D. MISSIONS

Senator Kasten: How successful has A.I.D.'s grant with Appropriate Technology International (ATI) been in providing technical assistance to A.I.D. missions in the development and dissemination of C.S.T. innovations?

Mr. McPherson: The purpose of our Cooperative Agreement with ATI is to strengthen ATI's capacity to facilitate the development, transfer, adaptation, commericalization/dissemination and assessment of appropriate technologies in developing countries, particularly those facing the poor and small enterprises.

Under the former grant, which funded ATI through September 1983, ATI staff had limited contact with AID missions. The current Cooperative Agreement emphasizes a closer working relationship between ATI and AID. We have encouraged ATI to seek opportunities to provide sector assessment, project design, evaluation and other services related to appropriate technology to AID Missions where the provision of such services would support the achievement of the purpose of the Cooperative Agreement. Several missions have shown an interest in working with ATI and we are seeking to develop an arrangement that will allow interested missions to buy into the Cooperative Agreement.

NEW TECHNOLOGIES RESULTING FROM ATI COOPERATIVE AGREEMENT

Senator Kasten: What kinds of new technologies have resulted from the A.T.I. Grant?

Mr. McPherson: During the first eighteen months of ATI's Cooperative Agreement with A.I.D., ATI supported 21 projects in Africa, Asia, and Latin America. Examples of technologies developed or planned are as follows:

AFRICA:

Palm Oil Extraction Unit, Cameroon

Purpose: To increase the productivity of palm oil extraction units and establish a viable palm oil equipment manufacturing firm.

Technology: The project is reconditioning old Colin presses available in Cameroon by replacing the worn screws, repairing the cages and replacing the gears; and combining them in a package with a palm oil nut bunch stripper and a clarifier for sale to village groups and cooperatives.

Agroindustries, Zimbabwe

Purpose: To diversify and expand the economic base of a farming cooperative by establishing agroindustries.

Technology: The industries to be established initially include a bakery, a mill, and a shoemaking plant. Other industries which the project may undertake later include vegetable oil production, peanut processing, meat processing, and fruit and vegetable processing.

ASIA

Rhizobium Inoculant, Thailand

Purpose: To increase soybean yields through the use of rhizobium inoculant.

Technology: The project will develop a simple, small-scale production process for producing rhizobium, a bacterium that can be grown in an aerobic fermentation process using a seed culture and a growth medium under aseptic conditions.

Protein Enriched Cassava, Thailand

Purpose: To develop a process for producing protein-enriched cassava for use as animal feed.

Technology: This project uses a solid substrate fermentation technique developed in Thailand that uses chipped cassava and an acid nutrient solution to produce enriched cassava on a small-scale.

Wool Spinning, Nepal

Purpose: To introduce an improved wool spinning technology among small producers to increase off-farm employment and incomes among the rural poor in Nepal.

Technology: The project will use a cradle wool picker, drum carder and a flyer treadle spinning wheel that can be produced locally and have been tested previously in Nepal.

Venture Capital Company

Indonesia

Purpose: To establish a small finance and technical assistance company which uses venture capital and credit mechanisms to invest in rural small industries operated by cooperatives small business or village associations

Technology: The project will invest in a variety of agricultural related industries, including coconut processing, rice husk briquetting, roofing tile production, sago noodle productions and similar simple technologies.

LATIN AMERICA AND CARIBBEAN

Cassava Processing, Haiti

Purpose: To assist a Haitian community organization to construct and operate a small-scale cassava processing plant.

Technology: The project will develop an improved technology for cassava processing using mechnical peeling of cassava tubers, pressing of cassava chips with a hydraulic press, solar drying, milling with a simple hammer mill and further drying with solar plate collectors and a revolving drum.

Swine Feed, Dominican Republic

Purpose: To assist cooperatives in producing and marketing swine feed to enable small hog farmers to increase their income.

Technology: The project will produce and sell molasses and ramie, develop a high protein feed from these inputs and provide veterinary products and services.

Linares Pump, Latin America Region

Purpose: To install the Linares pump which has been successfully demonstrated in Columbia in several Latin American countries.

Technology: The project uses a stream-powered water wheel originally developed and tested in Ubaque, Columbia.

ATI'S ACTIVITIES IN FOOD PRODUCTION IN AFRICA

Senator Kasten: What role has A.T.I. played in helping African countries to find new technologies and methods for increasing food production?

Mr. McPherson: ATI's Africa Program currently operates in five countries. ATI is not directly involved in food production. However, ATI does work in the related areas of agricultural product processing and equipment and support for small farms. In the area of agricultural product processing, the Africa program has concentrated on developing innovative technologies and on promoting and adding value to locally grown crops. Since October 1983 ATI has supported several projects which provide economic incentives for increased food production. These projects include, Agroprocessing Industries in Zimbabwe; Oil Extraction Units in Cameroon; and Shea Butter Extraction Units in Mali.

C.S.T. PROGRAM GUIDANCE

Senator Kasten: A July 1984 G.A.O. report found that A.I.D. had issued little, if any, program guidance to missions on C.S.T., and consequently, A.I.D. staff were generally unfamiliar with the Agency's C.S.T. emphasis or with A.T.I. What has A.I.D. done to increase staff awareness of the importance of using capital savings tools and techniques in development projects, especially in Africa?

Mr. McPherson: A.I.D.'s FY 1987 CDSS guidance, issued worldwide, on December 5, 1984, reminded all missions of my special interest in capital saving technology (C.S.T.). In the guidance, I emphasized that CDSS' which include C.S.T. and other important development assistance factors will be given higher priority in program and budget considerations.

In addition, our new policy paper on Private Enterprise Development, which will be incorporated into the Agency's Handbook series, includes a section on C.S.T., encouraging C.S.T. where appropriate in terms of capital and labor availability.

We will issue further guidance on C.S.T. whenever appropriate.

Senator Kasten: How much of A.I.D.'s Development Assistance obligations could be identified as having a C.S.T. focus?

Mr. McPherson: According to figures we have analyzed A.I.D. applies about seventeen percent (17%) of its Functional Development Assistance funds to C.S.T.-financed projects.

CAPITAL SAVINGS TECHNOLOGY IN AFRICA

Senator Kasten: What part of A.I.D.'s efforts in Africa has been in transferring capital savings technologies?

Mr. McPherson: A.I.D. has supported a wide range of capital savings technology efforts in Africa. Since many of them are activities within projects, a precise breakdown of financial input is not available. We estimate roughly $45 million is being applied to capital savings technologies.

Examples of capital savings technologies include development of improved wood and charcoal cookstoves in Kenya, Sudan, Lesotho and Mali that are 30-40 percent more efficient in fuel consumption. The technology is typically produced by small, private firms. Peace Corps Volunteers have often helped establish the technical capacity and have encouraged its use in village households. Several projects have developed more efficient animal-drawn farm equipment so that animals can do more work while expending less energy and, at the same time, fields are prepared more suitably for crop production. Adoption of Oral Rehydration Therapy has now meant that thousands of infants are being saved throughout Africa by use of this simple technology in family homes. Agricultural research has identified parasitic insects that will control mealybug and green spidermite in cassava; the result is great savings in imported chemical pesticides, as well as there being no environmental degradation. Increasing use of various leguminous plants which add nitrogen to the soil has also saved import and application of large quantities of chemical fertilizers. Another significant capital savings technology promoted in A.I.D. projects is the use of certain bushes or trees as "live fencing" instead of expensive and often unavailable barbed wire. As an alternative to electric power solar power is being used in Mauritania and Niger to preserve medicines at rural health centers.

A.I.D.'S PLANNING AND PROGRAMMING PROCESS

Senator Kasten: Does A.I.D. have approved "Country Development Strategy Statements" (CDSS's) for all countries receiving bilateral assistance? If some counries do not have approved strategies, why not?

Mr. McPherson: No, we do not have approved CDSS's for all country programs. Some country programs are so small we do not require complete CDSS's. For example, long range assistance strategies for Sierra Leone, Congo, Guinea and other small programs are based on a brief document submitted as part of the budget process. In other countries, political or economic instability makes long range planning extremely difficult, so we ask our mission to postpone submission of a CDSS until the situation stabilizes. Burkina Faso is an example. And in some countries there is disagreement between Washington and the field on the country's development problems or on the strategy we should pursue in assisting the country. In cases where there is disagreement, we wait until issues are resolved before approving the CDSS.

Senator Kasten: Have certain missions historically had difficulty obtaining CDSS approval? Which countries? Why? How long have they gone without approval?

Mr. McPherson: I think it is fair to say we have questioned all our missions on at least some aspect of their proposed strategies. In most cases we have been able to resolve issues during review meetings, sometimes with minor redrafting or with submission of brief additional material. In a few cases, we have asked our missions to redo their strategy statements entirely. Only rarely has this process resulted in a CDSS which still cannot be approved by AID/Washington. However, we have had extended periods of disagreement in a few countries, notably Zaire and the Dominican Republic, both of which had two sucessive CDSS's disapproved.

In Zaire, we were concerned about geographic concentration of the program and whether recipient government policies would be sufficiently supportive of our programs. In the Dominican Republic, we were not confident we understood the causes of deteriorating economic conditions or that the Mission had adopted a strategy which would address those conditions and still achieve a focused overall program. In both countries, we have now reached agreement on an appropriate strategy, although we have also asked for additional information from both missions.

Senator Kasten: What effect does not having an approved CDSS have on a country's annual budget or project proposals? Can a country's budget increase despite the lack of an approved strategy? Can project proposals be approved and design started?

Mr. McPherson: The CDSS is the basic planning document used by AID in providing foreign economic assistance to individual countries. The CDSS serves four basic purposes.

First, it provides field missions with a conceptual framework, consistent with overall Agency policy, for developing programs, projects and budgets.

Second, it serves as the basic reference document used by AID/Washington for overall country program review.

The CDSS also provides a major reference point for AID/Washington project reviewers.

Finally, the CDSS shows what AID expects to achieve in a country and how it intends to do it.

Thus, an approved CDSS provides a reference for resolving a wide range of issues relating to AID's policies and program objectives. Not having an approved CDSS puts an especially heavy burden of proof on a mission to demonstrate the merits of its budget or project proposals.

As a general rule, I would not expect a country program level to increase without an approved strategy. However, many factors, including U.S. interests, go into establishing country levels, so there are exceptions to the rule. Tunisia is a good example, where we are now re-establishing a program and do not yet have a CDSS, but the budget level is increasing.

It is also possible for individual project proposals to "stand on their own." If the mission is not operating with an approved CDSS, then additional analysis and justification may be included in the project documentation. However, our strong preference is to have an approved CDSS before beginning new projects. In some cases, the Dominican Republic for example, we have told missions we would not consider new project proposals until we have an approved strategy.

Senator Kasten: How frequently do missions submit CDSS's to AID/Washington for approval? Are strategies generally prepared and submitted more frequently than the time span they cover?

Mr. McPherson: The CDSS covers a planning horizon of three years. If there are no significant changes in-country, that period can be extended. On the other hand, if there are significant changes during the three-year period, a new CDSS may be requested.

During the first few years of the Administration, when we were establishing new policies for the Agency, missions on average submitted CDSS's more frequently than the three-year period. In some cases, Bangladesh for example, new Mission Directors have used the CDSS process to think through strategy issues, even if the country has an approved CDSS. However, nearly all our missions have approved CDSS's and are now on a cycle which will result in submission of a CDSS once every three years.

PROJECT REVIEW AND APPROVAL PROCESS

Senator Kasten: In recent years, it appears that A.I.D. has taken action to streamline and improve the project review and approval process. In 1983 an A.I.D. Implementation Task Force traced many of the Agency's implementation problems specifically to Project Identification Documents (PIDs) review and approval process. What recent actions has A.I.D. taken to expedite and improve this project review and approval cycle? What results are evident from these actions? What specific steps have been taken to address the task force identified P.I.D. Review and Approval problems?

Mr. McPherson: By 1983 the longest delays in the PID approval process had been addressed. The average time for approval of PIDs had been reduced from 78 days in 1978 to 32 days in 1982. In December 1981 the Assistant Administrators' approval authority on new projects was increased to $20 Million and up to an additional $10 million on amendments. Still, all PIDs were required to be reviewed in A.I.D./Washington before the missions could further proceed with project development. In December 1984, acting on findings of the Implementation Task Force, the Agency further decentralized authority to the field missions for Project Papers (PPs) and PIDs. This additional authority provided that 1) PIDs and projects with life-of-project costs less than $2.5 million are to be approved in the field where there is a full mission provided that it is "non-controversial" and adequate technical expertise is available in the field; 2) missions are to provide AID/Washington a yearly "Action Plan" describing future projects. That plan then serves as the basis for facilitating PIDs and PPs to be authorized and approved by the field mission - regardless of life-of-project cost; 3) Regional Bureau Assistant Administrators are encouraged to redelegate the authority to field missions to approve and authorize projects; 4) PIDs and PPs submitted to Washington would be reviewed only for significant policy issues and participation of the officers from outside the regional bureau in the project review decision meeting will be limited.

AID DIRECT CONTRACTING

Senator Kasten: A.I.D. carries out a large part of its foreign assistance projects, programs, and activities through direct contracts with individuals, educational institutions, and private firms. G.A.O. has reported that significant increases occur in contract prices and contract implementation time periods through contract amendments which are noncompetitive actions. What specific actions has A.I.D. taken to quantify the extent of and reasons for contract amendments for its contract universe?

What are the results of A.I.D.'s analysis of contract amendments (i.e., will actions be taken to reduce contract amendments)?

Mr. McPherson: In response to G.A.O. and our internal analysis, A.I.D. has recently revised its requirements for the data to be collected on contractual actions to include a more specific breakdown of types of amendments, e.g., contract extension, revised scope of work, incremental funding, overhead rate adjustment, etc. As these changes are implemented, we will be better able to quantify the types of contract amendments and to identify any actions that should have been considered for competitive procurement. Our A.I.D. Washington procurements in FY 1984 included 502 funded amendments of all types. It is this group that our new data collection requirements will breakdown for further analysis this year.

Many contract amendments must continue as a result of A.I.D.'s annual funding process. To provide for better program or project continuity, especially in longer term projects, multi-year contracts are often used. Funding for these contracts is provided on an incremental basis depending upon the performance of the contractor, the rate of expenditures, and the period of performance involved. This process is accomplished by means of contract amendments. Alternatively the Agency would need to initiate new contracts annually. Significant staff changes would be required to reverse this trend and, instead, do larger numbers of shorter term contracts.

CONTRACT SCOPES OF WORK

Senator Kasten: Vague scopes of work for contractors result in contract amendments to continue services that in turn increases contracting prices and implementation time frames. The final results are project implementation delays, and money spent for services that may or may not meet expected goals. Do you feel, Mr. McPherson, that A.I.D. has identified and distributed to its staff, what A.I.D. considers particularly well-written scopes of work from "real-world" active contracts?

And has A.I.D. monitored compliance with these examples?

Has A.I.D. required project design teams to draft initial scopes of work (which can be later refined) in as much as the teams should have the most detailed knowledge of how projects should be implemented?

Mr. McPherson: Guidance, training, and review procedures for all aspects of project design continues to be one of the highest priorities in A.I.D. There is a continuing need to stress the necessity that scopes of work be as clear and definitive as possible from the outset of a project. We have expanded the guidance on this subject in our procedures and in the training provided to our project officers. In both of these areas, considerable stress is put on the fact that inadequate scopes of work will have to be tightened at some point during project implementation by amending the contract, and that this process often results in increased contract prices and extended contract periods. Project design team members are frequently involved in the drafting of initial scopes of work since, as you correctly point out, they have the most detailed knowledge of how projects should be implemented. We have used actual examples of "good" scopes of work in some of our training programs in the past, but we will adopt your suggestion and expand the use of this approach as a device to emphasize the need to improve this aspect of our program implementation.

As to compliance, senior program officials must review and approve these documents and our contracting staff must also determine that they are sufficiently specific to be contractible.

A.I.D. EDUCATION AND TRAINING FOR LESS DEVELOPED COUNTRIES

Senator Kasten: I understand that A.I.D. recognizes that developing countries' shortages of adequately trained people is a key impediment to increasing agricultural and industrial production, reducing population growth and improving the quantity and quality of services. What new initiatives is A.I.D. exploring and/or using to improve or expand its present participant training program?

-- Shared costs with host-country government, or business?

-- Shared costs with U.S. private sector businesses and universities (including in-country classes e.g., National University of San Diego, CA.) and State Governments (e.g., Florida)?

-- Changing/altering participants' qualifications (e.g., English preparatory to training in the United States)?

What effort has been made to monitor, and control, the overhead and administrative costs incurred by A.I.D. contractors/grantees when recruiting, placing, and servicing A.I.D.-financed training participants?

Mr. McPherson: The host country usually contributes to training program costs by paying for: pre-departure activities performed in the home country; employee salaries to maintain the participant's family during the period of training; and some or all of the cost of international travel. Travel costs must frequently be paid by the Agency for those LDCs which rank among the poorest and for those LDCs with high inflation and a heavy foreign debt burden. Where feasible, host governments contribute passage of participants to the nearest point to the U.S. in the host country's national airlines network.

Recipient country Private sector, or parastatal organizations, contribute to participant training program sponsorship in a manner similar to that used by host countries.

In addition A.I.D. maintains, through the Office of International Training, a Reimbursable Training Program which programs, places and monitors participants who are funded 100 percent by host governments.

A.I.D. is actively exploring ways of expanding its work with both the U.S. and host country private sectors. To date, private sector businesses and institutions, as well as professional organizations and societies, have played a role in the training of A.I.D. participants. Programs have been undertaken with such companies as Land O' Lakes and Walker Company, a small muffler manufacturer.

A.I.D. has over the years sought to share costs of participant training with universities. Two of our oldest programs, Latin America Scholarship Program of American Universities (LASPAU) and the African Graduate Program (AFGRAD), provide tuition waivers by universities for participants. It should be noted however, that the recent inflation in higher education costs has caused many state and public universities and their legislative oversight committees to reevaluate their policies toward foreign students. Many of these institutions are now seeking to end public subsidies to foreign students.

A.I.D. also makes use of State governments. For example, the State of Florida is currently involved as a subcontractor to a training program of participants from the Caribbean.

The Agency supports efforts by Missions and AID/offices to provide at least a portion of training programs in host countries. For example, many research portions of graduate level programs are conducted in-country.

However, greater use of in-country training may not be desirable for several reasons: One objective of the participant training program is to expose foreign students to U.S. culture. A.I.D. participants are currently enrolled in over 400 different technical specialties. Very few of these academic specialties have sufficient numbers of participants from the same general region to justify establishing in-country classes.

English language proficiency is in almost every instance a requirement for training in the United States. Some training is provided in Spanish language institutions in Florida, New Mexico, and Puerto Rico and in French, such as the public administration program at University of Pittsburgh. However, in many cases predeparture English Language training is requested. A.I.D. uses local universities as well as bi-national centers, such as USIA training programs, the British Council, etc. When a high enough level of English cannot be reached at home, participants are brought to the U.S. for final proficiency training. The American Language Institute of Georgetown University (ALIGU) through a contract with A.I.D. has for several decades provided the Agency with both training and testing. Some U.S. universities also provide courses of English language for foreign students.

In addition to English, A.I.D. projects may provide participant candidates with remedial math and science upgrading. Some projects have specific elements directed toward the elimination of training constraints through in-country training prior to training abroad. Examples are the Development Support Training project in Pakistan, the General Participant Training II loan project in Indonesia and the CLASP project getting underway in the LAC region in response to the Jackson Plan.

The Agency completed a study of contractor costs for managing participants in FY 1983. The results showed a wide range of overhead administrative costs charged to A.I.D. for contractor services. A second, more comprehensive study will look primarily at the administrative (and overhead) costs that contractors charged in FY 1984 to perform a variety of participant training services and will recommend reasonable ranges of costs for contractors to perform specific training activities.

In the meantime, we are vigorously implementing several procedural mechanisms to ensure Agency control over the expanded program. The Agency is developing procedures to standardize the selection and monitoring of participant training contractors and to ensure that they are managed more cost-effectively. We are developing for A.I.D. Project Managers and the Office of Contracts Management a standardized contracting format (including budgets) to evaluate proposals and contracts. We are also developing standard scopes of work and reporting formats for contractors to use in reporting participant data and contract progress. This will ensure that contractor costs can be compared and analyzed more easily by the Agency in the future.

The Agency is establishing procedures for surveying participants in training to determine the adequacy of contractor performance.

PHYSICAL SECURITY OF EMPLOYEES

Senator Kasten: The funds you request for security and protection of your facilities are part of the Inspector General's operating expenses, I believe. Do you consider these funds as a postponable item within the operating expense account?

Mr. McPherson: Compared to certain other types of expenses, such as salaries and rents, the costs of the security program could be considered postponable in that they are not legal requirements or fixed costs which must be met. However, I consider this program to be a critical element of the operating expense account. We have spent an average of $1.2 million per year for the past three years from the Inspector General's allocation of operating expenses to improve the security of our overseas facilities and plan to spend similar amounts in fiscal years 1985 and 1986. In addition, the Department of State will be utilizing about $4.8 million out of their security supplemental appropriation to improve the security of A.I.D. facilities overseas. The amounts mentioned exclude those funds spent by individual overseas missions for security purposes.

Senator Kasten: Will you provide for the record the amounts requested for security purposes in each of the fiscal years, beginning with fiscal year 1982 through fiscal year 1985, showing also the amount you ended up spending on this item?

Mr. McPherson: The information requested follows ($ in millions):

(In each year shown below, the amount of the final appropriation was considerably less than the agency request, requiring adjustments in most areas of expense.)

Fiscal Year	Agency Request	Obligations *
1982	**	$ 1.4
1983	$ 1.8	1.0
1984	2.5	1.2
1985 (estimate)	3.0	1.6

* Obligations exclude amounts spent locally by overseas missions and by the Department of State on behalf of A.I.D.

** The original FY 1982 request did not identify a separate level for security.

A.I.D. EVALUATIONS

Senator Kasten: A.I.D.'s Commodity Import Programs (CIPs), cash transfers and sector assistance activities account for about half of A.I.D.'s total assistance activities. However, both G.A.O. and A.I.D. have reported that these activities are not evaluated. How is A.I.D. complying with Section 621A of the Foreign Assistance Act of 1961, as amended, requiring that A.I.D. establish a management system that includes:

> "The adoption of methods for comparing actual results of programs and projects with those anticipated when they were undertaken."

What specific actions has A.I.D. taken to:
--establish requirements for evaluating Commodity Import Programs (CIPs), cash transfers, and sector assistance?

Mr. McPherson: The "A.I.D. Evaluation Handbook" is currently being rewritten. The earlier handbook (originally published in 1972 and last reprinted in 1976), focused on the evaluation of technical assistance projects. The revised Handbook will provide a more thorough treatment of the evaluation of program and sector activities, and cash transfers. Currently, CIPs, cash transfers (including the large program in Israel), and sector assistance, constitute 40-45 percent of A.I.D.'s portfolio.

DEVELOPING GUIDELINES FOR PROGRAM EVALUATIONS

Senator Kasten: What specific actions has A.I.D. taken to develop specific guidelines for those performing such evaluations?

Mr. McPherson: In 1984 A.I.D. developed draft guidelines for evaluation of CIPs and CIP-like programs. While both types of programs provide balance of payments relief, the latter are targeted on "sectors" such as agriculture or a particular industrial activity, and with a large commodity import component. The guidelines have been reviewed at the technical level, and currently are being revised. When completed by summer of 1985 the guidelines will be published for Agency staff use.

EVALUATIONS OF COMMODITY IMPORT PROGRAMS, CASH TRANSFERS AND SECTOR ASSISTANCE

Senator Kasten: What specific actions has A.I.D. taken to actually evaluate commodity import programs, cash transfers and sector assistance?

Mr. McPherson: U.S. bilateral assistance projects are evaluated, whether the projects are supported through the Development Assistance or Economic Support Fund accounts. Most evaluations in a given year focus on specific projects, althoughgreater attention is now being directed to CIP and CIP-like programs. Cash transfers are deposits of funds in the general revenues of the aid-recipient governments. There have been no formal evaluations of cash transfer programs. They are reviewed in terms of their macroeconomic effects and their relation to policy dialogue in conjunction with the Country Development Strategy Statements, and approvals of individual cash transfer proposals.

During 1984 A.I.D. evaluated four commodity programs: Zimbabwe CIP, February 1984; Somalia CIP I and II, April 1984; Egypt CIPs 1975-1984, December 1984; Egypt private sector production credit project, December 1984. Under the latter, commodity imports were sold locally and the currency generated was used to fund a credit program for the private sector. These evaluations have been summarized in an AID/CDIE (Center for Development Information and Evaluation) paper ("Recent Evaluations of AID Commodity Import Programs," AID/CDIE Working Paper #54, forthcoming) which identifies common lessons learned and issues which should be considered in future CIPs. This publication will be made available to AID/Washington staff and USAID Missions. In FY 1985 the Senegal CIP and six Sudan CIPs have been scheduled to be evaluated.

BUREAU FOR EXTERNAL AFFAIRS BUDGET INFORMATION

Senator Kasten: What is in this budget for Public Relations Activities? People, Dollars?

Mr. McPherson: The FY '85 budget for the Bureau for External Affairs through June 1985 is $420,300. Of this amount, $359,000 has been allotted for the operating budget and $61,300 has been allotted for the travel budget. To date, $175,508 has been obligated for operating expenses and $50,635 has been obligated for travel expenses.

Senator Kasten: What is the authorized staffing for the External Relations Bureau?

Mr. McPherson: The Bureau for External Affairs is authorized to employ 43 full-time employees and 5 part-time employees. It currently employs 39 full-time employees and 3 part-time employees.

Senator Kasten: Should the American taxpayer foot the bill to proselytize the foreign aid program in this country -- particularly at a time of acute fiscal stringency?

Mr. McPherson: The Bureau for External Affairs is not proselytizing the foreign aid program. It has been this Administration's policy to improve A.I.D.'s capacity to communicate both the goals of development and the context in which development programs are administered. In the past the American people have been uninformed about foreign assistance and often misinformed. In addition to educating the American public on how their tax dollars are expended it is also the Bureau's responsibility to communicate public response to the policy councils of A.I.D. For too long A.I.D. has developed policy and administered its program in a public affairs vacuum. This critical exchange of information is essential to insuring that A.I.D.'s foreign policy programs are based not only on the sound foreign policy judgement of top U.S. Agency for International Development officials, but also on the response of the American public.

Senator Kasten: What is the cost of various A.I.D. publications such as "Horizon," etc.?

Mr. McPherson: The Bureau for External Affairs currently issues three publications. They are Horizons, AID Highlights and Front Lines. Horizons and AID Highlights are quarterly publications which cost $46,000 and $53,000 per year respectively. Horizons is a technical publication on economic development for professionals in the development field. AID Highlights is a newsletter that meets the great demand for general information on the U.S. foreign aid program. It presently reaches 70,000 business and community leaders in the United States. Front Lines, produced at an annual cost of $130,600 per year is the agency's monthly newspaper. It serves as the official communications link between A.I.D. employees abroad and the Agency headquarters in Washington, D.C.

Over the last four years the Bureau for External Affairs has streamlined the effectiveness of its publicatons both in cutting costs and in better meeting specific target audience needs. For example, we reduced Horizons which was previously a monthly publication to a quarterly publication. The savings that resulted from this change allowed us the opportunity to create AID Highlights. Consequently, we have been able to save the taxpayer $5,000 per year and at the same time increase our ability to meet the needs of two audiences -- the professionals in the development field and the general public.

Further savings in the publications area were also generated through the Agency's Communications Review Board (CRB). The CRB was reconstituted at A.I.D. in response to an OMB moratorium on printing and distribution of new periodicals and pamphlets. The CRB reviews all new items determined as falling under the moratorium. Since 1981, the total savings to taxpayers resulting from the CRB activities is over $2.5 million.

SOLE SOURCE CONTRACT

Senator Kasten: An item in the Commerce Business Daily has been called to my attention whereby the Agency for International Development indicates that it intends to solicit on a sole source basis, a contract--which, as I understand it, would basically run joint meetings between A.I.D. and Peace Corps. You intend to give this to a firm entitled "Benchmarks, Inc." What is so special about this organization which entitles it to a sole source contract for basically just running a meeting which I believe any consulting firm could do?

Also, for the record, would you please provide the Committee with the names of the principal officers and managers of "Benchmarks, Inc."

Mr. McPherson: The contract in question with Benchmarks, Inc. is intended to cover far more than the running of joint meetings between A.I.D. and Peace Corps. The task also includes assistance in the development of collaborative programs between the two organizations, which we believe will enhance our efforts in numerous countries where we both have programs. The contractor will serve as a catalyst for a greater integration of planning between the two agencies. To successfully carry out these tasks the contractor must have a complete understanding of the operating philosophy and methods of both agencies and be known and respected by them. Benchmarks, Inc. was initially judged to be the only firm satisfying these requirements. As a result of the publication of the notice in the CBD that you mention, four other firms submitted capability statements for consideration. Our project office is in the process of establishing a joint A.I.D./Peace Corps panel to evaluate the four technical submissions. Should the panel conclude that one or more of the firms meet the technical requirements the contract will be awarded to the firm offering the most advantageous cost proposal to A.I.D. and the Peace Corps.

As you requested, the principal officers of Benchmarks, Inc. are as follows:

President	Thomas J. Scanlon
Exec. Vice Pres.	Karen J. Veck
Corporate Secy.	Elizabeth Patterson

INSPECTOR GENERAL FUNDING

Senator Kasten: While I recognize that you are required to reduce your overall operating expenses, how do you justify any reduction to the Inspector General's operations, given the very obvious need for his operation and given the fact that Congress has so strongly in the past demanded full funding and operation of that activity?

Mr. McPherson: I appreciate your concern in this matter and agree that the Inspector General must be given adequate resources to carry out his responsibilities. However, other offices and bureaus, especially those involved in the day-to-day management of our development efforts, must also have sufficient resources to ensure that the types of problems requiring the attention of the Inspector General are held to a minimum and to take corrective action where such problems are found.

The emphasis I am giving to the operations of the Inspector General becomes evident when you compare the overall workforce reduction of the agency from fiscal year 1982 to 1986 with the staffing levels of the Inspector General. While the total agency workyear usage will have been reduced by 10.5 percent during this period, the workyears available to the Inspector General will have increased by 13 percent.

In terms of funding levels, the Inspector General is being asked to reduce his administrative costs the same as all other elements of the Agency. We do not believe this reduction will have an adverse effect on the audit coverage provided by the Inspector General as he is making a significant effort to use program funds to increase the audit coverage of AID projects. However, if it is found that such funding reductions will have a critically adverse impact on IG operations, I will make every attempt to increase this budget element through further reductions in the budgets of other offices and bureaus.

I would like to point out that for the past several years the IG has been given a target budget level with the understanding that funds will be found to supplement the target levels if required. In fact, we have provided the IG with funding levels in each of the past several years such that they have been able to return a portion of their funds for reallocation to other offices and bureaus. This system has worked well in the past and I am confident that it will continue to be satisfactory to all concerned.

MANAGEMENT INITIATIVES

Senator Kasten: Over the last several years, your Congressional Presentation document for the operating expense budget has basically repeated itself. What management initiatives have you really accomplished?

Mr. McPherson: The management improvements we have been making since I arrived at A.I.D. are long-range in nature and are intended to bring about permanent changes in the management of the agency. It takes time to fully implement such changes if they are to create permanent improvements in day-to-day management. For this reason, programs which began two to three years ago are still being referred to, since they are still being refined and expanded upon. However, let me cite a few examples of our efforts in this regard.

We started our office automation efforts several years ago, and continue our efforts in this direction. Without this long-range effort, we would never have been able to plan for reductions in our direct hire employment from 1982 to the planned 1986 level. The reduction in staff has been made possible in large part because of the increased productivity brought about through automation. There are microcomputers and advanced word processing systems installed in every AID/Washington bureau and in 70 posts overseas. Almost all correspondence and documentation in AID is now produced on advanced word processing equipment. In the past three years about 1,600 employees have been trained in the use of these systems. Training has been provided to all overseas personnel on a priority basis when they are in Washington.

Another example is the Mission Accounting and Control system being implemented at our overseas missions. This effort was begun in order to improve the financial control over funds and, at the same time, to provide managers with better and more up-to-date information about their programs to assist them with their jobs. Over the last three years we have fully implemented the system in 13 of our largest missions overseas and we are now in the process of converting the manual records in another 6 locations. The 13 completed systems cover approximately 70 percent of our worldwide overseas pipeline as well as the operating expense accounting for the 13 missions.

As a result of office modernization and modularization efforts, space savings have been generated. Modularized space and microfiching of files has freed additional space in the State Department building. Because of these efforts, all of A.I.D.'s geographic offices are now located in the State Department. Internally many of A.I.D.'s bureaus and offices have also been linked electronically through the use of shared Office Information Systems.

Finally, A.I.D. was one of the first participants to use a commercial travel agent under a no cost travel contract. This increased efficiency and reduced the cost of doing business.

Senator Kasten: How much have you saved on shipment of household goods?

Mr. McPherson: During the past four years, the average length of time spent by our U.S. direct hire employees at post prior to reassignment has increased to more than 3 years. As a result of this longer period of time at post, we estimate that the fiscal year 1984 cost of shipment of household goods was $1.1 million less than it would have been had the average tour of duty still been 30 months.

Senator Kasten: What furniture and equipment have you replaced where the need was critical?

Mr. McPherson: It is not possible to provide a quantitative answer to your question. The agency's current policy on replacing furniture and equipment is that it will be replaced only when required, regardless of how long after the "normal" replacement cycle this may be.

CONCENTRATING RESOURCES

Senator Kasten: Again in the personnel area, you said over the years that you would concentrate resources on fewer countries, increase the use of less staff-intensive delivery mechanisms.

Have you done this? What are they?

Mr. McPherson: We are working on this difficult problem. I am considering the reduction or complete withdrawal of AID direct hire staff from some of our small posts around the world. These posts can be covered by our regional offices and from Washington. We have also worked hard to reduce the number of new projects, thus concentrating in fewer sectors and management units. In FY 1986, we are proposing a total of 160 new projects as compared with 242 new projects in FY 1984 and 202 in FY 1985. This is a 25 percent drop from FY 1985 to FY 1986.

RENTS AND UTILITIES OVERSEAS

Senator Kasten: Your rent, communications and utilities keep going up overseas.

With the strong dollar today, why is this happening? Overseas personnel have gone down (U.S. and Foreign Nationals).

Mr. McPherson: Increases in rents, communications and utilities will be incurred because ten (10) USAID offices will be relocated in FY 1986. In addition, 59 leases for functional space in the amount of $2.5 million and 383 residential leases in the amount of $5.7 million are scheduled for renewal and/or renegotiation. Though the U.S. dollar continues to be strong overseas, inflation also still persists as a major factor in the local economies and accounts for a significant portion of these cost increases.

OTHER SERVICES

Senator Kasten: Under the A.I.D. operating expenses breakdown (pg. 175, main volume) the category "Other Services" confuses me.

What are we spending $68 million for? That is 18% of your budget. It was $51 million in FY 1982.

Mr. McPherson: The "Other Services" object class contains a multitude of critical but unrelated costs.

The largest single component is our payment to the Department of State for Foreign Affairs Administrative Support (FAAS) estimated at approximately $20 million.

In addition to the payments to the Department of State for FAAS, there are payments to other government agencies, such as to the Department of Labor for employee compensation claims, Defense Contract Audit Agency and the Department of Health and Human Services, among others, for audit services, Department of Defense for use of the military postal system, and to the Foreign Service Institute for language training. These payments to other government agencies will amount to about $8.2 million in fiscal year 1986.

Other costs which are charged to this object class include such items as contractual arrangements for maintenance of equipment and property in Washington and at overseas missions, contracts for background security investigations, charforce and other "body" contracts at overseas missions, contracts for security guards both in Washington and overseas, contracts for domestic storage of household effects of employees stationed overseas, etc.

OVERSEAS EQUIPMENT INVENTORY

Senator Kasten: We keep buying $15 or so million a year of equipment -- what is it? How many vehicles? What is the value of your equipment inventory now?

Mr. McPherson: The equipment programmed consists of replacement office furniture and equipment (e.g. typewriters, air conditioners, calculators, and generators), automation equipment, residential furniture and appliances and vehicles. Because of the harsh conditions that exist in developing countries, a vehicle replacement policy was established. As a result, 90 vehicles meet the prescribed criteria for replacement in FY 1986. The total value of our equipment at the close of FY 84 amounted to $52.7 million.

PROPOSED STRUCTURAL CHANGES

Senator Kasten: What structural changes do you now intend to make in the way A.I.D. delivers its programs?

What are the estimated savings in dollars of these changes? In people associated with these changes?

Mr. McPherson: At this time I am considering a variety of structural changes in order to streamline the operation of the Agency and to save operating expenses. We are considering the combination of the Near East and Asia Bureaus as well as possible functional reorganizations of the Science and Technology Bureau, Program Planning and Coordination Bureau, Food and Voluntary Assistance Bureau and the Management Bureau.

We estimate that these changes will save approximately 235 staff positions mostly in AID/Washington. We plan to attain this reduction and savings through normal attrition saving up to $20 million in direct salary and personnel related expenses.

SUPPORT TO OVERSEAS SCHOOLS

Senator Kasten: How can you terminate school support for the children of your overseas employees? How will it be provided?

Mr. McPherson: Part of AID's contribution to the overseas schools program provides help to individual school construction projects which can be postponed during tight budget years. In addition, we will be making every effort to identify savings elsewhere within our proposed budget so that funds can be shifted into the overseas schools category and avoid any loss of accreditations.

PRIVATE SECTOR INITIATIVES

Senator Kasten: As the U.S. Private Sector's participation in "less developed countries" development is becoming increasingly important, what do A.I.D.'s private sector initiatives mean and entail, and how does A.I.D.'s emphasis differ from the past?

Mr. McPherson: A.I.D.'s private sector initiative -- a major thrust of our economic development strategy -- is based on our belief that sustained, equitable growth in the Third World depends on participation of the private sector, on individual initiative and entrepreneurship, on the interplay of competition, and on market forces. Therefore, over the past four years, A.I.D. has striven to encourage the growth of indigenous private enterprises, particularly small- and medium-sized enterprises, to create conditions necessary to their self-sustained growth, and to strengthen linkages between U.S. and LDC private enterprises.

Our emphasis on the private sector has served to supplement, rather than replace, A.I.D.'s strategy with respect to the "New Directions" legislation, or "Basic Human Needs" approach. While traditional A.I.D. programs increased access of the poor to productive resources such as land, water, fertilizer, seeds, tools, credit, and renewable sources of energy, that approach could not, by itself, promote sustained economic growth. By the 1980s, it had become clear that economic growth was indispensable if LDCs were to achieve their goal of better lives for their people. In most LDCs, a reliance on the free market provided the only chance for broadly based economic growth and upward mobility.

We approach the use of the private sector in four ways that differ from past practice.

First, we rely to a greater extent upon policy reform. We encourage LDCs to follow free market principles and move away from government intervention in the economy. This creates a climate whereby A.I.D.'s assistance can be truly effective. Such a climate lets the market determine how economic resources are most productively allocated and how benefits are distributed. Among our efforts in policy reform are the removal of subsidies, the divestiture of state-owned enterprises, the removal of barriers to trade and investment, both foreign and domestic, and the easing of access to markets.

Second, A.I.D.'s Bureau for Private Enterprise (PRE) provides a new focus for the organization, implementation, and coordination of private sector activities. PRE also develops and finances many of its own innovative private enterprise projects that are beginning to have substantial development and employment generation impacts in developing countries. Some of these involve the use of U.S. private enterprises.

Third, A.I.D. missions have made great advances in utilizing the private sector. In addition to projects that relate solely to private enterprise development, the missions pursue many projects in agribusiness development, food and agriculture development, health, and training that rely on the use of private sector organizations such as private voluntary organizations (PVOs), businesses or labor organizations. These projects cover areas as diverse as credit availability, pricing, manufacturing and facility development, export development, and promotion of non-traditional exports. Perhaps more than any other source of U.S. expertise, PVOs are able and willing to assist small, micro enterprises in the poorer regions of many LDCs. PVOs are particularly suitable for person-to-person advisory services needed in developing countries.

Finally, A.I.D. has channelled more of its resources through private sector mechanisms, when host country conditions have made this possible. The private sector is being used as a delivery mechanism for such activities as the delivery of family planning services, improvement of health care, provision of education and training services, and provision and maintenance of transportation and infrastructure in developing countries.

Senator Kasten: What specific accomplishments do you feel A.I.D. has achieved to date with its private sector initiatives?

Mr. McPherson: A.I.D.'s private sector initiatives program, in its four years of existence, has helped to make LDC economies more market-responsive, led to the creation and expansion of many indigenous enterprises, and has had a substantial impact on employment generation. Examples of accomplishments include:

- Marketing and distribution. The privatization of Bangladesh fertilizer distribution has led to the increased use of private sector organizations in the process.

- Health and population. A.I.D.'s programs in the retail marketing of contraceptives and oral rehydration therapy (ORT) have relied on existing local wholesale/retail networks; this has increased distribution outlets and allowed services to be provided to individuals outside of government channels.

- Agricultural development. A.I.D. has worked with fertilizer and seed companies to integrate them into LDC extension work.

- Agribusiness. From the beginning, the private sector initiative has focused on agribusiness as a key provider of jobs, increased income, and value-added agricultural exports as well as a stimulus for LDC farm income and production. Agribusiness-oriented A.I.D.-funded loan pools in Siam and Kenya Commercial Banks are in the process of creating some 1,500 jobs in rural Thailand and Kenya. Most sub-projects involve technology transfer. A.I.D. has pioneered the "satellite farming" concept under which core agribusinesses provide extension services to suppliers; Thailand's first modern private meat processing plant, partly capitalized with A.I.D. funds, expects outreach to some 2,000 farmer/suppliers.

- Intermediate Financial Institutions. We have greatly expanded A.I.D. institution-building efforts by working with private, rather than only government credit sources. These include National Development Leasing Corp., Pakistan's first private leasing company; FINADE, a Dominican development bank providing credit to smaller exporters of non-traditional products; and Caribbean Basin Corp., a U.S.-based venture capital company.

- Innovative Financing. In Bureau for Private Enterprise (PRE) projects, A.I.D. has instituted loans at near-market rates to LDC private enterprises and institutions serving them. PRE's collateral account loan mechanism protects LDC borrowers against foreign currency losses connected with direct dollar loans, and attracts non-LDC private bank participation in development projects.

Senator Kasten: How is A.I.D. insuring that its private sector emphasis directly benefits the poor majority in less developed countries?

Mr. McPherson: We consider that helping the poor majority in LDCs is a major emphasis of the private sector program. This is accomplished in a macro-economic way and a project-specific sense.

In the first area, A.I.D. pursues policy dialogue directed at positive effects on the labor market. We use policy reform to correct distortions that artificially encourage capital over labor, including unrealistic pricing policies. We encourage developing countries to rely on labor-intensive technologies.

In the second area, the beneficiaries of most private sector projects are small, medium-scale and micro enterprises or poor farmers. A main feature of PRE's Healthlink Loan Pool in southeast Asia is the marketing of health products for poorer people. Bureau for Private Enterprise loan projects are designed almost exclusively for targeted smaller enterprises that provide jobs, wages and opportunities in their areas and these projects are often weighted toward the more impoverished areas of the host country. Congressional guidelines for the Private Sector Revolving Fund, which funds major Bureau investments, specify small business and cooperative beneficiaries. This focus has agency-wide implications because PRE projects are structured for replicability in the field.

Senator Kasten: To what degree has A.I.D. been able to increase private sector contributions to development as opposed to using more private organizations to implement A.I.D. programs?

Mr. McPherson: A primary objective of A.I.D.'s private sector initiative has been to work with private sector organizations in implementing programs to which they are committed. This includes commitment of financing resources. All Bureau for Private Enterprise loans, for example, include, on average, 50 percent matching cash contributions by private sector sponsors and financing sources, both host-country and American. In the case of intermediate financial institutions serving targeted clients, who also contribute funds to sub-projects, the leveraging ratio runs about one A.I.D. dollar out of four or five outside dollars.

Other agency private sector loans similarly involve commitments by the private sector, though not necessarily to the same extent as those disbursed by the Bureau for Private Enterprise. In any event, agency private sector loans compare favorably with the more common

25 percent contribution from host governments in more traditional A.I.D.-funded projects -- or less in the case of poorer countries.

A.I.D. does, of course, continue to work with private organizations to implement many of its programs. This is certainly true in the case of the P.L. 480 program, private voluntary organizations' relief efforts, and others. The recent amendment to the Foreign Assistance Act which imposes a 20 percent non-government funding support requirement on PVOs is an example of increased outside support that has been mandated by Congress. Our view is that increased private support is desirable, and we believe the private sector initiative is beginning to leverage such support in creative and effective ways.

Senator Kasten: How is the A.I.D. private sector emphasis complementing its efforts in health, population, education, energy, agriculture, rural development and nutrition?

Mr. McPherson: A.I.D. is relying on the private sector as a delivery mechanism for many of its bilateral programs, when host country conditions have made this possible.

Health care. A variety of private sector opportunities are pursued to improve health care. First, private funds are encouraged to pay for services for which there is existing demand. Fees for services, fees for drugs, and prepaid cooperative or insurance schemes have been implemented successfully in different settings. Second, private channels (radio, advertising media) are used to stimulate demand for services. Third, private sources are used to manufacture drugs and medical supplies, and private channels employed for their distribution between public and private sources. For example, A.I.D. has relied upon local private sector organizations in Egypt to promote and distribute Oral Rehydration Salts (ORS). Similar programs that also rely on the private sector are being planned in Jordan (where a local private sector company has started ORS production), Tunisia, and Yemen, among other countries.

A.I.D. has also relied on the local private sector in many other health programs. Egypt is planning a comprehensive program to involve the private sector in such areas as rural health services, pre-paid health maintenance organizations, health equipment maintenance, family planning services and hospital administration. Pre-paid health maintenance programs are being investigated in Morocco, Tunisia and Turkey.

Population. Private sector flexibility and innovation, both voluntary and for-profit, are vital components of an effective system for the distribution of contraceptives. Where supplies are sold through the commercial market, either at full price or at subsidized prices, cost recovery can be maximized and dependence on external sources of support is decreased. A.I.D. support for social marketing of contraceptives has expanded proportionally more than any other type of delivery system over the last few years, and we will continue to support such programs. For example, A.I.D. has relied upon the private sector as a delivery and marketing mechanism for contraceptives in Bangladesh, India, Nepal, and Pakistan.

Education. A.I.D. encourages the diversification of school providers so that parents have a choice in determining the type and quality of their children's education. For many LDCs this implies an expansion of private education and community-based schools. A.I.D. supports a shifting of more costs of education to the private account, particularly at the higher levels of education. Finally, A.I.D. believes that local schools should engage the private sector in a wide variety of schooling-related services, from construction of facilities to the provision of instructional materials.

Energy. A.I.D. encourages private sector development of fossil fuel resources where there is a potential for equity investment or for private operation and management. For renewable resource development, especially for applications for rural development, the private sector is viewed as the primary dissemination mechanism for providing new technologies for cooking, heating, irrigation, mechanical power, and lighting.

Agriculture. A.I.D. supports a substantial transfer of responsibility to competitive markets and private enterprises in the agricultural sector. In particular, the market should have primary responsibility for determining the price of agricultural commodities and inputs. Similarly, the private sector should have principal responsibility for the provision of agricultural inputs and credit. For example, irrigation offers opportunities for an expanded private sector role in activities such as on-farm development and systems design. In addition, A.I.D. seeks creative ways to increase the involvement of the private sector in traditional government programs such as agricultural research and extension. In particular, A.I.D. encourages the development of new arrangements between input suppliers, farmers and marketing firms such as "contract" or satellite" farming.

INSPECTOR-GENERAL'S REPORT ON A.I.D. MANAGEMENT OF TITLE XII

Senator Kasten: Title XII of the Foreign Assistance Act was a Congressional direction to your Agency to improve and strengthen the involvement of United States Land Grant Colleges and other eligible universities in solving food problems in developing countries.

Unfortunately, shortcomings which were highlighted in a 1981 G.A.O. Report on A.I.D.'s management of this Title continue.

In November of last year, your Inspector-General examined the Strengthening Grants program and he raises additional questions about the Agency's management of its responsibilities under Title XII. In brief, the report reflects a general looseness of management controls and oversight of this program.

Have you examined that IG Report, and have you corrected the deficiencies highlighted in the Report, especially those which deal with misuse of money provided under the program?

Mr. McPherson: We have indeed examined the Report very thoroughly. We have fully accepted all eight of its recommendations which are very useful for the phase of the program we are about to enter. Three of them have been fully implemented. A fourth required an intensive Agency-wide analysis of AID's needs for specific manpower skills to be provided by universities. This analysis is nearing completion. A fifth requires computer capability which has just recently been acquired and processes are underway to establish the detailed tracking system recommended. The remaining three are being incorporated into Guidelines under development through intensive internal AID staff work in continuous consultation with the Board for International Food and Agricultural Development. These formal Guidelines we expect to issue in July 1985. In the meantime we incorporate the substance of the recommendations in our daily administration of the program.

We cannot agree, however, with the Report's conclusion that much of the program's expenditures were not directly related to the purposes cited in the legislation for strengthening activities; namely, "strengthening the capabilities of universities to assist in increasing agricultural production in developing countries." For example, the auditors cited language training and foreign travel as "of questionable benefit to AID," and strengthening university administrative structure for handling international programs as bearing "no relationship to program objectives." In fact, these activities address some of the most serious barriers to the effectivesness of university agricultural advisors in AID field projects: their inability to speak the local language, their lack of knowledge and understanding of cultural and geographical conditions in developing countries, and the lack of administrative mechanisms on campus able to identify and mobilize the appropriate mix of personnel in response to the Agency's requests for project contractors.

A major indication of the impact of the above and other efforts under the Strengthening Program has been a sharp upturn in the number of universities responding to Agency requests for contract proposals and the improved quality of those responses.

The initial phase of this program had, as a primary objective, the expansion of the university resource base, as mandated in Title XII. The phase we are now entering is being more fully focused on supporting the AID field projects in which the grantees are involved. Accordingly, the Strengthening Grants are being transformed into what we now call Program Support Grants under long-term Memoranda of Understanding. The Audit Report recommendations are highly relevant to this program and are being incorporated throughout.

COMPARISON OF DEMAND VERSUS ACTUAL BUDGET

Senator Kasten: Please give us a comparison of the demand for Trade and Development funds vs. your actual budget.

Mr. Holmes: Demand for Trade and Development Program (TDP) funds has always substantially outstripped TDP's actual budget. Proposals submitted to TDP over the last several years for feasibility study funding has generally amounted to approximately three to five times the size of TDP's budget. In FY 1984, with a program budget slightly in excess of $15 million, TDP received approximately $60 to $70 million in requests. This fiscal year, with a program budget slightly more than $19 million, TDP has received approximately $45 million in requests, with almost one half of the fiscal year remaining.

ENERGY CONSTRAINTS IN LDCS AND AID'S RESPONSE

Senator Kasten: AID's recent Energy Policy Paper, issued last July, states: "The Energy constraints faced by most developing countries are severe. (Page 1) These are likely to become more serious in the years ahead, and will be a key detriment of future growth prospects." (Page 4) For example, it cites several troubling facts:

-- Oil represents over 90% of commercial energy consumption in Latin America, 80% in the Near East and 75% in Asia and Africa, and most of this must be imported, "putting an inordinate strain on the economies of the developing countries." (Page 2)

-- Energy imports are linked to the heavy foreign borrowing levels we have seen in the developing countries. Many of them are unable to sustain the continuing high level of oil imports: "In many countries oil costs consume 50 percent or more of foreign exchange earnings." (Page 2)

-- The policy paper offers the following conclusion: "If countries cannot pay to import oil, they must reduce either investment or consumption; then their economies stagnate." (Page 2)

I would say this is a fairly grim assessment of the situation, and casts energy development as a major concern. How is AID's development assistance program responding to the situation?

Mr. McPherson: AID is responding to this situation in a number of ways. AID is attempting to identify the specific energy constraints affecting individual country development plans. For example, where increasing food production by intensified irrigated agricultural development is part of a country's development plan, and a U.S. assistance role is envisaged, the AID Country Development Strategy should recognize and deal with the potential issue of assuring adequate energy supplies to the rural areas where such projects are planned. AID also is supporting research, institution building, training, and technology transfer activities in energy which will engender effective responses to country energy problems, both at the macroeconomic level and in the context of rural development. An important aspect of AID's work in the energy area is stimulation of private sector participation by encouraging the development of appropriate investment and pricing policies and by demonstrating the technical and economic feasibility of energy project investments. Finally, AID recognizes that U.S. research expertise and practical experience can have significant applications to the problems which are faced by many developing countries today.

ENERGY ASSISTANCE ACTIVITIES

Senator Kasten: Figures I have indicate that A.I.D.'s Development Assistance funding for energy has been sharply reduced in recent years, and that the FY 86 budget request represents something on the order of a 60% cut from the FY 81 level. These figures suggest that A.I.D. has made a significant change in its priorities away from energy. For example, in the Science and Technology Bureau, I note that energy is being drastically cut while most other programs are staying the same or increasing, in terms of spending trends in recent years. And energy already takes only a very small percentage of total Bureau resources, less than 4%.

I wonder if we are heading in the wrong direction on energy. I don't see the wisdom of saying, on one hand, that most of our recipient countries are threatened with economic stagnation because of worsening energy problems, and then with the other hand, cutting support for energy development. Can you throw some light on this issue?

Mr. McPherson: There has, in fact, been a decline in the amount of A.I.D.'s Development Assistance funds allocated for energy assistance activities. The total amount of A.I.D. resources for energy, however, has risen from $168 million in FY 81 to $185 million in our FY 86 budget request. Major energy projects are underway in several countries receiving Economic Support Funds including Pakistan, Egypt, the Philippines and Sudan.

The decline in Development Assistance funding allocated specifically for energy reflects our attempts to more sharply focus our Development Assistance program on a few high priority areas in agriculture, rural development and health. I believe that AID and other assistance agencies can play only a limited albeit important role in energy development. Thus, as part of our policy dialogue with host country governments we have been encouraging the development of investment policies and energy pricing policies that will stimulate private investors to exploit domestic energy resources and to allow greater reliance on the market to assure the most efficient use of scarce energy supplies.

With respect to future year budgets, we are currently assessing the appropriate funding level for the central energy office. Programs administered by this group provide scientific leadership and core technical expertise for Agency-wide energy activities. The orientation of these programs is to field activities which assist our Missions in identifying in-country energy problems and the most cost-effective opportunities for intervention. The office also pursues new technological approaches for development assistance, conducts global training and technical assistance programs, and plays a key role in developing and implementing the Agency's energy policy and strategy.

COMMERCIAL ENERGY SHORTAGES IN RURAL AREAS AND A.I.D.'S RESPONSE

Senator Kasten: In light of the critical importance of agriculture and rural development in general, I believe we ought to be focusing mainly on rural energy systems. Therefore I agree with the special emphasis which the Energy Policy Paper gives to commercial energy supplies for rural areas: "AID programs must recognize a fundamental reality: more energy is required to increase agricultural production. Without increased energy, countries cannot achieve production increases of any significance." (Page 6)

It is my own experience, coming from a farm state, that developing commercial energy supplies is one of the essential ingredients for increasing agricultural productivity. This was especially true in terms of bringing in reliable power service to dairy and poultry farms, for crop processing and handling, and other agricultural activities. It is evident that the rural energy supply situation in the developing countries is particularly poor. For example, I've seen statements which indicate that as much as three-fourths or more of rural populations in the developing countries still do not have access to electricity. (World Bank)

I am concerned that we may be planning for large investments in agriculture -- irrigation, for example -- when the energy supply situation is still far from secure. What steps are we taking to address commercial energy shortages in rural areas, for agriculture and rural industry, and so on?

Mr. McPherson: A number of A.I.D.'s current energy activities are designed to address problems of energy supplies for agriculture and rural development efforts. These include technical assistance for developing new and expanded sources of energy for irrigation, adapting more energy efficient methods of agro-processing, and training and support for the development of investment and energy pricing policies as they relate to agriculture. Rational energy prices are a critical factor in assuring the efficient use of scarce energy resources for productive uses especially in rural areas.

Energy is not a key constraint in every developing country. Where rainfed irrigation predominates and adequate fuel is available for tillage, transport and processing, other factors are more critical: detrimental government policy, poor farm management, lack of farm to market roads, etc. In over half of A.I.D. assisted countries, however, energy is a critical factor. In Pakistan, for example, one-quarter of that country's electricity is used for agricultural water pumping. Severe power outages caused by lack of sufficient generating capacity amount to over one-quarter of total power demand. Since crops in the sub-continent rely critically on irrigation, this lack of power can completely destroy an entire season's crop by denying water at critical points in the agricultural cycle. A.I.D. has been working to eliminate these shortages through a comprehensive program of better energy management, energy efficiency improvements, better planning of systems expansion needs and so forth. In Senegal, energy requirements for irrigating the Senegal River Basin, if electricity is used for pumping, will require 150 percent of that country's total power capacity. A.I.D. is working with the government there to provide more energy for this critical agricultural need.

Efforts by other donors in the energy/agriculture nexus, both bilateral and multilateral, appear to be fragmentary and fall far short of what is required. While an Organization for Cooperation in Economic Development (OCED) document states that official development assistance has concentrated in priority sectors such as agriculture and energy in low-income countries, the linkages between the two sectors are often not made, i.e., availability of energy supplies to power irrigation systems, operate mills for grain processing, etc. Although the World Bank has been involved in rural electrification projects and some of this has benefited rural activities, clearly the energy required for agricultural production and for LDC food systems is and will be an emerging concern if world food supplies are to be increased.

Our central Office of Energy has been examining the linkages between energy use and agricultural productivity as part of their planning a new technical assistance and research initiative in this area to begin in FY 1986.

QUESTIONS SUBMITTED BY SENATOR HATFIELD

POLICY CHANGES TO INFLUENCE ECONOMIC GROWTH

Senator Hatfield: To what extent has A.I.D. been able to influence policy changes in Central America to encourage economic growth? Since policy change was, according to the Kissinger Commission, a pre-condition to economic development, how can increased assistance be effective without more policy adjustment?

Mr. McPherson: A.I.D.'s effectiveness in influencing host-country policy changes in Central America has varied from country to country, with the most important determining factor being a country's recognition that stabilization and structural adjustment are necessary and its willingness to face up to the short-term political risks associated with policy reform measures. Where the will to undertake reforms has been present, A.I.D. has worked with governments on the nature, timing, and magnitude of various policy adjustments, sometimes in cooperation with the IMF or World Bank, and sometimes by itself. A.I.D. has placed particular emphasis on price liberalization measures that tend to stimulate domestic savings and private investment in productive activities. Significant policy reforms have been initiated in most countries of the region, but much remains to be done. Given the political risks involved in introducing these reforms, they often have been introduced at a slower rate than we believe is desirable from the point of view of stimulating economic growth. But progress in the right direction is continuing, and A.I.D. has played an important role in the reform process. We agree that policy reforms make our assistance more effective, and we will continue to press for their implementation.

LAND REFORM ACTIVITIES IN EL SALVADOR

Senator Hatfield: AID has provided about $100 million for land reform activities in El Salvador since fiscal year 1980. What is the status of land reform efforts? Have former landowners been compensated to their satisfaction? Have cooperatives been able to pay off debt incurred for the land transferred to them? Have cooperatives been able to make a profit, or have revenues been insufficient to cover production loans?

Mr. McPherson: Compensation of former landowners continues at the present time. To date $162.7 million ($10.2 million in cash and $152.5 million in bonds) has been paid to former owners of Phase I farms. This covers the compensation of 256 of the 472 properties affected by Phase I. Compensation under Phase I was to be the simple average of the owner's 1976 and 1977 tax declarations. However, this has not been as simple as envisioned because tax declarations have been missing or altered, and some owners undervalued to avoid taxes while others overvalued when securing bank loans or in anticipating the reform. Capital improvements made after 1977 and adjustments for reserve rights are also considered in determining the final compensation amount. Verifying and valuing the capital improvement and determining the reserve rights have delayed compensation to former owners.

(Many of the same problems described above also plagued Phase III of the reform. In addition, under Phase III each of the individual parcels must be surveyed and legally described before a title can be issued. Since titling and compensation of former owners are tied together in the law, compensation has been slow. By the end of 1984, 1057 of approximately 4,000 affected Phase III landlords had been compensated in the amount of $17.4 million. Half was in cash and half in bonds.)

Titling and Debt Repayment for Phase I. Once the former owner's reserve rights are settled and compensation has been paid, the cooperative's agrarian debt is established. The agrarian debt for each cooperative equals the compensation paid the former owner (subject to any pre-reform emcumbrances). Equating the cooperative's debt with the compensation paid to the former owner has led to some problems. Because the former owner's compensation is reached by negotiating from declared values, the final compensation amount (and thus the cooperative's agrarian debt) may or may not bear a relationship to the productive capacity of the land or the ability of the cooperative to eventually repay its debt.

During 1984, an analysis of the debt structure of the cooperatives was conducted by A.I.D. consultants*.

They found the debt faced by the cooperatives consisted of three components: (1) the agrarian debt incurred for the land and other expropriated assets, (2) the "ISTA-BFA Cartera" which was emergency production credits loaned to the cooperatives in 1980, and (3) accumulated production and investment loans which have been "rolled-over" since 1980. The total debt (principal and interest) faced by the cooperatives was estimated to be $800 million of which the agrarian debt accounts for 87.4 percent; four percent for the "ISTA-BFA Cartera"; and the remaining 8.6 percent in accumulated loans. The consultants concluded that the total annual income of almost 75 percent of the cooperatives is barely sufficient to meet the service payments on their current bank debt (production and investment loans), and nearly 95 percent do not have, as of November 1984, the financial capacity to cope with the total annual debt service payments. Alternatives as to how to deal with the unmanageable portion of the cooperatives debt are being studied by the GOES.

Phase I Production. Throughout the Salvadoran agrarian reform emphasis has been placed on maintaining agricultural production. The incomes of the Phase I beneficiaries, the agricultural export income of the nation and, to a large extent, the success of the agrarian reform depend upon the ability of the Phase I farms to maintain production even during the disruptive process of changing ownership and management.

However, several factors complicate attempts to measure Phase I production progress, and statistical indicators fail to reflect the dynamic nature of El Salvador's agrarian reform. It is difficult to measure precisely how well the Phase I farms are producing because comparative, time-series data are hard to develop

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"Analysis of the Agrarian Debt of Phase I Agrarian Reform Cooperatives in El Salvador", Robert R. Nathan Associates, Inc., October 1984.

and analyze, especially now that it is necessary to distinguish between the reform and non-reform sectors. Definitional changes also impair comparability. With technical assistance from AID, the GOES is improving its capability to monitor and measure agrarian reform sector progress and production.

Numerous Phase I farms sit squarely in areas of military/guerrilla combat, especially in the Departments of La Union, San Miguel, Usulutan, San Vicente, La Paz, Morazon, Chalatenango and Cuscatlan. The result is that upwards of 50 farms have been abandoned at least temporarily over the years and many have not returned to operations as cooperatives. As of November 1984, ISTA reported 18 completely abandoned Phase I farms.

Export crops such as cotton, coffee and sugar cane have been hard hit. Cooperatives members, as well and private producers, have been warned by the guerrillas not to plant export crops or have been charged "war taxes" in cash or produce for areas planted.

Equipment has been destroyed and workers threatened, kidnapped and killed.

Cotton is especially susceptible because it needs timely applications of pesticides applied by light planes. Spray planes are easy targets because they must fly low and slowly. Thirteen crop dusting planes were shot down in 1982, and although the Armed Forces have emphasized security around the cooperatives during critical periods in the agricultural crop cycle, losses continue at disruptively high levels. The extent of the reduction in cotton production, as well as other export crops, due to threats and violence is difficult to measure and adds to the economic uncertainty faced by all agricultural producers in El Salvador, including reform beneficiaries.

In the case of sugar cane, the fields of drying cane are easily destroyed by fire. To deal with this, harvests are begun earlier than usual. When cut early, the cane is less dry; but the sugar content is lower, reducing production.

Despite these problems, progress is being made, and the Phase I farms are continuing to produce significant amounts of basic grains and export crops.

The Phase I reform sector cropped 21,600 fewer hectares (a 26.6 percent decline) from the 1980-81 crop year to the 1983-84 crop year. This decline occurred despite an increase of hectares planted on the cooperatives located in the two agricultural regions of western El Salvador. Offsetting that increase was comparatively greater decline of hectares planted on the cooperatives in the less secure eastern regions of the country. Other factors contributing to the decrease were low world prices, a shortage of farm equipment, a lack of timely credit and the decisions made by some cooperatives to change their crop/enterprise mix.

The Phase I reform sector cooperatives' average yields compare very favorably with the national average yields. Average yields can reflect many variables: management, soil fertility, cultural practices, availability of timely credit and the vagaries of weather. There is little doubt that the credit and technical assistance priorities given to the Phase I cooperatives have helped them to maintain their average yields.

While hectarage planted and average yields are important determinants of the amount of total product eventually harvested, they alone are not sufficient to demonstrate the importance of the Phase I reform sector cooperatives' contribution to El Salvador's agricultural production.

The Phase I farms produce over 5 percent of the basic grains which are marketed as well as 14 percent of coffee, 40 percent of cotton and 37 percent of sugar cane. Production of all agricultural commodities except sugar cane has decreased in both the reform sector and for the nation as a whole. This trend is particularly true for the basic grains where national production has decreased 16 percent for corn, 9 percent for beans, 29 percent for rice and 12 percent for sorghum.

US CONDITIONALITY IN ITS ECONOMIC ASSISTANCE PROGRAMS

Senator Hatfield: During the last decade, a large number of developing countries experienced a significant slowdown in growth, rising energy costs, contracting export markets, deteriorating terms of trade and higher interest rate costs. Uncontrolled fiscal deficits were financed by rapid monetary expansion leading to strong inflationary pressures. Inflation and inappropriate interest and exchange rates created major economic distortions, undermined incentives for producers and exporters, and encouraged capital flight. Adjustment measures were avoided by relatively easy access to foreign borrowing which resulted in high accumulations of external debt and left many countries very vulnerable to the 1981 - 1983 world recession. Many countries have sought debt relief and economic stabilization through IMF arrangements which have required austerity budgets and policy reforms. The United States has conditioned some of its assistance (particularly ESF) on compliance with IMF arrangements and/or host country macroeconomic policy reforms.

How does AID coordinate with Departments of State and Treasury to ensure that the US Government's position on conditionality is consistent--that we are not supporting one set of goals in the IMF and another, possibly conflicting set, at the bilateral level? In addition, what difficulties does AID face in working with the Department of State to achieve macroeconomic policy reforms? Has AID had to waive conditionality at the insistence of the Department of State in Honduras or El Salvador?

Mr. McPherson: The Agency for International Development's (AID's) views on appropriate International Monetary Fund (IMF) conditionality arise in the context of specific country programs. We are concerned with cases where AID has a substantial program in the country, especially when an aspect of the AID program addresses the need for macroeconomic adjustment. In these cases, AID Missions closely follow developments in the host country macroeconomic policy situation, including negotiations with the IMF. Through various interagency committees chaired by its regional bureaus, AID solicits the views of the Departments of State and Treasury in the formulation of appropriate conditionality in our bilateral aid programs. AID is in frequent contact with State and Treasury to assure that our concerns are taken into consideration in the development of United States (US) positions for multilateral agency programs. As a member of the National Advisory Council the International Development Cooperation Agency/Agency for International Development (IDCA/AID) also has a formal mechanism through which to voice its views on IMF programs. We strive to achieve consistency between our bilateral assistance objectives and the goals we support in the Fund. To this end, we are seeking to improve further our analysis and communications.

AID does not face difficulties in working with the Department of State on macroeconomic policy reforms. While State may at times be more sensitive than AID to the possible political implications of withholding or delaying disbursements of economic assistance, both State and AID are well aware of the importance of achieving basic macroeconomic policy reforms, such as adjusting overvalued exchange rates, reducing budget deficits or providing incentive prices to farmers to prevent perpetual dependence on foreign economic assistance. On the other hand, AID is well aware of the political repercussions that could result from imposing severe austerity measures.

AID has not had to waive conditionality at the insistence of the Department of State either in Honduras or El Salvador. An effective coordinating machinery exists at the mission level through the close working relationship that generally prevails between the Mission Director and the Ambassador. In Washington, the coordination is achieved by circulating the project authorizing documents that describe the specific loan or grant proposal to State Department as well as AID officials, who all have an opportunity to present their comments at meetings of the loan review committees where action is taken to approve, reject or modify the proposed project.

Significant progress in the area of macroeconomic reform has taken place in both El Salvador and in Honduras. It is true that progress has been slower than we would have wished, particularly in the area of exchange rate adjustment. In Honduras, conditionality was waived in June of 1984 on the disbursement of $30 million in Economic Support Fund (ESF) assistance in the wake of a special appeal by the President of Honduras. However, the recent negotiations for the Fiscal Year (FY) FY 84 ESF Supplemental Appropriation conducted, on our side, by a joint economic commission co-chaired by a State Department and an AID officer concluded with an agreement for $72.5 million and a statement of general principles providing the framework for a comprehensive economic program for FY 85 ESF assistance. The statement was signed by both governments. In the case of El Salvador, significant progress has been made in shifting both import and export transactions from the official to the parallel market, and in some other areas as well. However, the exchange rate has not yet been unified at a sustainable level.

In neither of these two countries is there now--or has there recently been--a basic difference in macroeconomic objectives between State and AID.

Senator Kasten: What has been the experience of the IMF and its programs for such countries as the Dominican Republic, Jamaica, Peru, and Sudan?

What is the AID experience--have the countries complied with AID assistance conditions or has the United States had to waive conditionality to permit disbursements?

Mr. McPherson: The International Monetary Fund (IMF) has had difficulty drawing up agreed programs and securing compliance in all of the countries mentioned. The Agency for International Development (AID) has been generally satisfied with the performance of the Dominican Republic and Jamaica so far, though Jamaica is now facing some very serious problems requiring substantial supplementary assistance. Peru and Sudan, however, have not implemented programs that meaningfully addressed the problems confronting them. A brief summation of recent IMF and AID experience with each country follows:

Dominican Republic: The Dominican Republic (DR) signed a three year Extended Fund Facility (EFF) program with the Fund in January of 1983. Implementation of the program in the first year did not produce the degree of adjustment sought. Balance of payments performance did not improve and the overall financial requirement of the public sector remained unchanged. The program became inoperative in the second year, i.e., the EFF was suspended owing to inability to reach agreement with the Fund. Continuing discussions between the Fund and the DR authorities took place in 1984, and agreement on a stand-by was reached in March 1985. A new stand-by program was approved by the IMF Board on April 15. A number of actions were already taken by the DR authorities, including moving almost all transactions to the parallel market, floating the exchange rate, adjusting fuel and electricity prices to reflect their true economic value, and initiating a comprehensive program of fiscal reform.

The program of reform supported by the FY 84 Supplemental ESF included exchange rate unification, adjustment of petroleum prices, appropriate restructuring of the electricity tariff, a variety of monetary measures and adoption of a comprehensive public sector budget that would not require financing from the central bank. AID finds that significant success has been achieved in all of these areas.

Jamaica: Jamaica is viewed by the Fund as having made substantial progress in coping with its problems in 1983 and 1984. Remedial measures include unification of the exchange rate, the auctioning of dollars to the private sector (after the government meets its requirements), and allowing the exchange rate to move closer to the market determined rate. The government has made a determined effort to provide a more favorable investment climate for the private sector. On the fiscal side, both current and capital expenditures have been cut, and measures taken to improve the revenue situation. Utility rates and administered prices have been raised, and credit policies tightened. However, Jamaica was not able to meet the IMF arrears targets for September 30 and December 31, 1984. The Fund granted a waiver for September 30 and another one was recommended for December 31. Disbursements under its current stand-by have been allowed to proceed uninterrupted until December, 1984. The Fund is withholding the December 31, 1984 disbursement pending approval of the waiver, and the March 1985 disbursement pending satisfaction of the performance tests. Negotiations between the Government of Jamaica and the IMF are currently under way for a new stand-by that may be approved this summer.

AID finds Jamaica to be in compliance with its own conditionality, which places major emphasis on exchange rate unification, gradual devaluation and a substantial reduction in the list of imports subject to quantitative (quota) restrictions. These measures have been taken.

Jamaica's economic problems have been aggravated by the depressed condition of the bauxite/alumina industry, and the closing of some plants in Jamaica. The drop in tourism as a result of demonstrations early in 1985 is another negative factor. These developments will entail substantial losses in foreign exchange and government revenues, and will require renegotiation of the IMF programs and alterations of performance targets. To ease the impact of the sudden decline in foreign exchang earnings on the economy, significant additional resources will be needed, coupled with further reductions in public sector expenditures.

Peru: An Extended Fund Facility (EFF) arrangement with the IMF was approved in mid-1982 and ran into serious difficulties in the second half of 1983. Performance criteria for the second year (1984) were not established owing to large slippages in program implementation. The public sector deficit increased from 4.8 percent of the GDP in 1980 to 10 percent. In April 1984, the extended arrangement was cancelled and a stand-by was approved for the period through July 1985. Initially, developments were in accordance with the program and Peru made two purchases from the Fund of SDR 15 million each. However, the purchase scheduled for August 15, 1984 was not made because Peru exceeded the June 30 limit on indebtedness of the non-financial public sector. Since mid-year, the fiscal situation has deteriorated substantially and Peru has incurred increasing arrears in its external debt service payments.

In June 1984, AID granted Peru a $60 million loan for disaster/balance of payments assistance to be disbursed in two tranches of $30 million each. The first $30 million was released. Drawing of the second was withheld pending adoption of an effective stabilization program. AID has recently released the second $30 million tranche on the ground that Peru has complied with this requirement. Self-help measures recently taken include significant increases in the price of gasoline and sales taxes, several minidevaluations and institution of better control over expenditures. It is not claimed that these actions are sufficient. However, it is felt that failure to grant the assistance needed would accelerate the deterioration of the economy and could endanger the democratically elected government.

Sudan: The country obtained a one-year IMF stand-by of 90 million Special Drawing Rights (SDR) from the IMF effective on June 25, 1984. It drew only an initial SDR 20 million. Subsequent drawings were dependent on observance of performance criteria and agreement on economic policies which could not take place because Sudan had again fallen into arrears with the Fund.

The Sudanese moved to improve incentives to agricultural producers for exports (the government raised payments to exporters from an average L1.42 to the dollar to L2.5 to the dollar); agreed to a more realistic pricing of imported diesel fuel; liberalized the sale of foreign exchange to the private sector, and made some initial adjustments (albeit insufficient) in the exchange rate.

However a number of basic changes were not implemented including the pricing of petroleum products (at their full real cost), effecting the Government of Sudan's (GOS's) promised foreign exchange contribution to the petroleum facility, making adequate adjustments in the foreign exchange rate and establishing controls over the budget.

Part of the AID program, the FY 1984 Commodity Import Program, would have become available once Sudan took the remaining steps. In April the reforms were taken and the program is now being implemented.

Following a military coup in April, the newly installed government is now reviewing the government's economic policies. It is still unclear on what will be changed.

While Sudan needs to adopt further self-help measures to stabilize its economy and set the stage for growth, allowance must be made for the fact that the country confronts four major problems: an insurrection in the South, a serious drought, the influx of half a million refugees from drought-stricken neighboring states, and an enormous debt service burden resulting from injudicious large-scale borrowing from foreign banks in the seventies.

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Senator Hatfield: As you know, the U.S. is currently engaged in the second replenishment negotiations for the International Fund for Agricultural Development (IFAD). Should those negotiations be completed prior to consideration of the FY 86 Foreign Operations bill, will AID support the submission of a budget amendment for the U.S. share of the second replenishment?

Mr. McPherson: Substantial progress has been made in the IFAD II replenishment negotiations. However, a number of issues have yet to be resolved — including the willingness of the U.S. to accept a 40% - 60% burden-sharing ratio and OPEC's ability to provide a firm and adequate pledge level.

Should a replenishment be finalized at the next session of negotiations, now scheduled for May 16 and 17, the Administration will consider a budget amendment to commence payment of the U.S. pledge to IFAD's second replenishment.

Senator Hatfield: It is my understanding that IFAD recently prepared a report on the famine in Africa, as well as the need for long-term development. That report recommended the creation of a special fund for Africa to be supported by contributions from donor nations over and above those provided in the second replenishment. Does AID agree with the recommendations of this report? Does AID share the view that there should be a special fund for Africa in IFAD? Do you believe the U.S. should participate in such a fund? At what level?

Mr. McPherson: IFAD's report on the impediments to long-term agricultural development in sub-Saharan Africa and proposal for the establishment of a special account to deal with these problems was only recently received and is currently under review by AID, State and other USG agencies. We have informed IFAD that we will submit our technical assessment of this report as soon as possible and will participate in the special session of the Executive Board in mid-May to discuss this document.

Until our internal review of this proposal is complete, I cannot comment on the whether IFAD should establish a separate fund to address the development constraints in sub-Saharan Africa or whether we believe that the U.S. should contribute to such an effort. We will be sure to inform you and your staff when our assessment of this report and its recommendations is complete.

U.S. RESPONSE TO AFRICA'S PROBLEMS

Senator Hatfield: Mr. McPherson, through your able leadership the U.S. has taken a leadership role in the provision of food assistance to Africa. You are to be commended for your forthright and aggressive effort to have the U.S. take the lead in responding to the drought. I fear, though, that unless efforts are undertaken to provide agricultural research, to promote family planning, and to improve the health of these peoples, combined with altering the economic policies of many nations, large amounts of U.S. food assistance will be needed to respond to future droughts. However, in the aggregate, there is a decline in development assistance in Africa from FY 85 to FY 86. Do you believe this is an adequate response to that situation? Does the U.S. have any plans to develop a long range program to respond to the famine and its related conditions? Does this program encompass activities other than those proposed under the Economic Policy Initiative for Africa?

Mr. McPherson: The Congressional Presentation for Africa requests a slightly higher aggregate funding level for Africa in FY 1986 from FY 1985 levels. These levels are consistent with the importance we place on the African food problems in a time of overall budget constraints. AID has developed long-term strategies in the areas of agriculture, agriculture research, family planning and health to guide our programs in Africa. In the area of food production AID's long term strategy is to assist in creating national policies which give farmers adequate incentives to expand food production; building self-sustaining institutions which provide appropriate technology, inputs and services; and establishing human resource development programs which provide the means for greater participation by farmers in the development process. This program is encompassed in all development activities.

AFRICAN ECONOMIC POLICY REFORM PROGRAM

Senator Hatfield: One of the purposes of the Economic Policy Initiative was to promote policy changes in selected African nations. Can you provide the Committee a listing of the countries which received specific assistance under the EPI in FY 85? Also, what specific policy changes were accomplished in these countries? With what certainty can you assure the Committee that these changes were exclusively the result of the EPI and would not have been accomplished normally through ESF?

Mr. McPherson: We have not yet authorized any programs under the special $75 million appropriation for policy reform in Africa. We are now in the process of designing three programs (in Mali, Zambia, and Malawi) which should be ready for Washington review by June. A fourth program, in Rwanda, is at a much more formative stage.

The program in Zambia is designed to free up the marketing of maize which is now totally controlled by government marketing agents. This control has led to great inefficiency and retarded marketing and production of maize by both smallholders and commercial farms. We believe market liberalization will lead to dramatic increases in agricultural production and allow Zambia to move to self-sufficiency in maize.

The program in Malawi is designed to remove fertilizer subsidies for smallholders and thus allow a much broader distribution of fertilizer. Since the Malawi Government has limited resources, fertilizer availabilities are constrained by the amount of money available for subsidies, and the program will not only lead to more efficient use of fertilizer and considerable budgetary savings for the government but also to a more equitable access to fertilizer supplies.

The program in Mali is designed to improve the efficiency of a government which is much too large and so strapped for finances that 80¢ out of every dollar goes to wages and personnel related costs. As a result there is a severe shortage of medicines, school books, gasoline, spare parts, paper, etc., all the supplies needed to make government service delivery efficient. Our program is designed to enable the Mali Government to begin to reduce the size of its work force and to help it provide services much more efficiently.

There are two major differences between what we are calling the African Economic Policy Reform Program (AEPRP) and our normal ESF programs. Our regular ESF allocations are decided primarily on the basis of national security needs. Under normal circumstances we would not have an ESF program in Malawi, Mali, or Rwanda. Equally important, the AEPRP gives us a flexibility that we don't have under normal programs where budget levels are determined 18 months in advance. We are much much more likely to be able to encourage policy reforms if our assistance is used as a carrot rather than a stick. If our assistance is programmed through our normal channels then we can only threaten the withholding of aid if a nation's economic policies are misguided. Through the AEPRP we are able to provide additional aid.

HEALTH ASSISTANCE

Senator Hatfield: Mr. McPherson, I am distressed to note that the FY 86 request for health assistance represents nearly a $80 million reduction from FY 85 appropriate levels. In addition, I am equally disturbed by your statement that this reduction is justified on the basis of Congressional initiatives providing more monies that have allowed you to forward fund later year's activities. That was not the purpose of the Kasten-Hatfield amendment which provided more monies for health. It is appalling to me that you are claiming to maintain momentum in the health area due to these initiatives, while at the same time eliminating funding for the Child Survival Fund and reducing health assistance well beyond the $60 million provided in the Kasten-Hatfield amendment.

What specific projects were funded in FY 86 and beyond?

On what basis can you assert that a $80 million cut in health assistance is maintaining momentum in the area of health?

Mr. McPherson: With the additional health, nutrition and child survival funds appropriated by Congress for FY 1985 we are funding new and expanded child survival activities. These activities will be developed and funded this year, but will in most cases last several years. We could not hope to complete such efforts within a year. In most cases, we have supplied funding for two or three years for these new projects. It would not have been good policy to initiate such projects without being able to guarantee support for several years. I want to make clear that these are new efforts. We did not merely forward fund existing projects with these additional monies.

Among the projects initiated in FY 1985 which have received funding through at least FY 1986 are:

- All the PVO projects funded through FVA and UNICEF.
- Bilateral projects in: Bangladesh, Philippines, Bolivia, Ecuador, Guatemala, Haiti, ROCAP, Africa Regional and Asia Regional.

I believe that the momentum which we have gained this year will carry over through the next year or so with the funding level we have in FY 1985 and that which we have requested in FY 1986. These programs take some time to get off the ground, and we are being very careful to select and develop those that will have a real impact on child survival.

I would like to note that A.I.D.'s recent health policy emphasized selective primary health care aimed at improving the health of mothers and children under age 5 and much of our health assistance is aimed at this group. The increased funding made available this year has made possible much increased activity in areas already identified as priorities of this Administration. However, the absorptive capacity of both governments and PVOs is not unlimited, and we want to be sure that the programs we start are effective and sustainable.

INTERNATIONAL CENTER FOR IMPROVEMENT OF MAIZE AND WHEAT

Senator Hatfield: The Congressional Presentation Document indicates that great success has been experienced at the International Maize and Wheat Improvement Center (CIMMYT). Mr. Brady's statement today mentions that the international centers, including CIMMYT, have vastly increased the yields of small and medium sized farms in Asia and Latin America. As you know, Oregon State University has played a major role in assisting CIMMYT in accomplishing these efforts. It is my understanding that A.I.D. has undertaken several reviews of CIMMYT. I request that you provide me with a copy of these reviews. For the record, what have been the general conclusions of these reviews?

Mr. McPherson: CIMMYT and Oregon State University have indeed made major contributions to increasing wheat yields in developing nations. The cooperative arrangement between them concerning spring and winter wheat has been particularly fruitful. This work has involved some core funding on CIMMYT's part and special project funding provided directly to OSU by A.I.D. A.I.D. does not conduct reviews of centers like CIMMYT which it sponsors through the Consultative Group on International Agricultural Research (CGIAR). That function is assigned to CGIAR's Technical Advisory Committee (TAC). TAC last conducted a comprehensive review of CIMMYT in September 1982. As part of that review, three of the review panel members reviewed the relationships between CIMMYT and OSU in wheat breeding. The subgroup concluded that their cooperation was "effective, fruitful, and mutually beneficial." The subgroup went on to recommend that its "stability and continuity should be ensured by a long term commitment of adequate resources by the parties concerned." A copy of this report is attached (Attachment A). The CIMMYT-OSU work, however, was only briefly mentioned in the overall report of the TAC team; a copy of the relevant statement is attached (Attachment B).

Senator Hatfield: In conversations with Oregon State University and representatives from the Oregon Wheat Commission, it has come to my attention that A.I.D. seeks to alter its relationship with OSU and CIMMYT. Up to now, A.I.D. has provided monies to OSU as the lead university at CIMMYT, but you are now proposing that monies go directly to CIMMYT. Is that true? If yes, on what basis is that action being taken? Why is A.I.D. choosing to no longer provide monies to CIMMYT through OSU?

Mr. McPherson: It is true that A.I.D. seeks to alter its funding relationship with OSU and CIMMYT with respect to the spring and winter wheat project. As you have indicated, up to now A.I.D. has provided funds directly to OSU for its portion of this work. A.I.D. has supported CIMMYT through our annual contribution to its core budget. We have never, however, provided funds for CIMMYT through OSU. We are now proposing that all the funding for the project be directed through CIMMYT and that, in turn, CIMMYT pass requisite funds on to OSU. The reason for this proposal is to try to assure full coordination of research on spring and winter wheats between CIMMYT and OSU and to provide, as the TAC review subgroup suggested, a long term commitment of adequate resources. This can be obtained, we think, if the overall spring and winter wheat program is funded through CIMMYT's core budget and is supported by all donors. CIMMYT has the global mandate for bread wheat research in the CGIAR system, and the spring and winter wheat program is an integral part of its work. We do not expect that this financial shift would lead to major changes in the nature of the work but it would assure coordination of efforts. Such a proposal would, of course, have to be reflected in the CIMMYT budget request to the CGIAR.

Senator Hatfield: I am also told that OSU has submitted a proposal for five year funding and that A.I.D. agreed in concept with the proposal. Is that a correct understanding?

Mr. McPherson: Your understanding is correct. OSU and CIMMYT have developed a mutual five year plan of work which includes funding proposals. They also have recently signed a memorandum of understanding. A.I.D. has agreed in principle with the plan and the memorandum.

Senator Hatfield: In the event that CIMMYT can't increase its own budget, will A.I.D. provide the necessary monies to fulfill the 5 year granting period? Will A.I.D. continue to provide 25% of CIMMYT? Could you provide a breakdown of the levels of contributions to CIMMYT by each nation, including the U.S., plus a breakdown of the funds provided to U.S. universities by unversity from FY 80 to FY 85?

Mr. McPherson: A.I.D.'s current plan is to provide bridging funding to CIMMYT for the remainder of FY 1985 and thereafter to support the work through its regular contribution to the core budget of CIMMYT. A.I.D. plans to continue to provide at least 25% of CIMMYT's budget; actually, over the five-year period from 1981 to 1985, A.I.D. has consistently provided more than 25% of CIMMYT's core funding (the proportion of A.I.D. funds provided to individual centers normally varies from the overall system average of 25%). Details on the levels of funding provided by individual doners from 1981 to 1985 are provided on the table at Attachment C. OSU is the only U.S. university funded by A.I.D. with which CIMMYT has a collaborative relationship. A.I.D. funding of the wheat program at OSU has been as follows from 1980 to 1985: FY 1980, $400,000; FY 1981, $497,000; FY 1982, $773,000; FY 1983, 0; FY 1984, $470,000, and FY 1985, 0. The two years where no funding is indicated were supported by carry over funds from previous years.

ATTACHMENT A

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THE PRO VICE-CHANCELLOR
Professor John L. Dillon,
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Mr. Robert Jackson
U.S. Department of State
Agency for International Development
Washington D.C.
U.S.A.

24 September 1982

Dear Mr. Jackson,

During the second quinquennial review of CIMMYT, several of the Review Panel members (C.O. Qualset, University of California, Davis; A.E.Hall, University of California, Riverside; and P.J. Mahler, TAC Executive Secretary, CGIAR - FAO, Rome) reviewed the relationships of CIMMYT and Oregon State University in wheat breeding. Our goal was not to review Oregon State University or its major program supported by funds from USAID. The group was very pleased with the effectiveness of the relationship between the two institutions. There was clear complementarity of goals in germplasm distribution, with OSU distributing materials for regions requiring winter hardiness and CIMMYT distributing materials for other areas.

Our Review Panel group was favourably impressed with the post-graduate training effort in wheat breeding that is under way at OSU.

I am enclosing the team's report of the review in Oregon. Dr. Qualset was the team leader for that trip and could be contacted should you have need for any further information (916) 752-0819.

Sincerely yours,

John L. Dillon
Chairman, CIMMYT Quinquennial
Review Panel

cc. CIMMYT
W. Kronstad
C.O. Qualset
A.E. Hall
P.J. Mahler

CIMMYT QUINQUENNIAL REVIEW 1982

Report of Review of the
International Winter x Spring Wheat Program at
Oregon State University

Introduction

From July 11 to 14, three members of the Panel of the CIMMYT QQR (Dr. C. Qualset, Dr. A. Hall, Mr. P. J. Mahler) and four members of CIMMYT staff (B. Curtis, A. Klatt, S. Rajaram, and G. Ortiz) visited Oregon State University, USA. This visit was part of a wider program involving members of the Quinquennial Review Panel in the assessment of diverse samples of the off campus activities of CIMMYT. Oregon State University has a collaborative program with CIMMYT wheat improvement through hybridization of winter and spring types.

The team first met with OSU officials and then with the OSU cereal program staff on the morning of July 11. It then visited Hyslop Agronomy Farm near Corvallis in the afternoon. On July 13 the team visited Sherman Branch Experiment and a local farm in the vicinity, the Hermiston Branch Experiment Station and Rugg's Experiment Site near Pendleton in the Northeastern part of Oregon. The details of the program of the visit and the list of people met are given in Annex I. The work of the visiting team was facilitated by several background documents which were prepared by CIMMYT and OSU. The list of these documents is given in Annex II.

The team wishes to express its deep gratitude to CIMMYT and OSU, the Oregon State Wheat Cereal Program in particular for the excellent organization of their visit, their kind cooperation in helping the team in its mission, and their warm hospitality.

Background on the OSU/CIMMYT Program

OSU has been engaged in cooperative activities with CIMMYT for 15 years when scientists from OSU under a direct line USAID contract introduced the semidwarf spring type wheats developed in Mexico into the coastal areas of Turkey. A CIMMYT special project funded by USAID subsequently involved a team of OSU scientists in a wheat improvement program for the Anatolian Plateau. The Rockefeller Foundation contributed in the development of the program, in particular to the establishment of the Wheat Research and Training Center in Turkey. CIMMYT, USAID, RF, and OSU have been and still are also closely associated in the identification and training of young LDCs scientists at OSU.

The Turkey program was highly successful in introducing new agronomic practices and varieties as indicated by national wheat production statistics. In 1967 when the program was started the annual wheat production was 6.7 million tonnes and this was steadily increased to 17-18 million tonnes in recent years.

Systematic intercrossing of the winter and spring wheat was undertaken by CIMMYT in 1968 when J. A. Rupert established a program for that purpose at the University of California at Davis. This program was merged with the Oregon State winter wheat program in 1971. At about the same time it was learned that winter wheats could be grown to maturity at CIMMYT's Toluca nurseries and it was therefore feasible to meet part of the objectives of the winter x spring intercrossing program by CIMMYT within their own facilities in Mexico. Upon Dr. Rupert's death in 1971 CIMMYT did not place a career staff member in Oregon. From the winter x spring program the goal was to select superior germplasm (1) with spring growth habit for areas where winter hardiness was not needed and (2) with winter growth habit for areas where winter hardiness was needed. The former could be done in CIMMYT facilities in Mexico and the latter required environments such as those occurring in the winter wheat production areas of Oregon. Thus, OSU concentrated on the winter wheat phase of the program. OSU developed an International Winter Wheat Program with primary funding from USAID with collaborative and minor financial support directly from CIMMYT.

Goals, Design and Operation of the Program

CIMMYT and OSU have common goals in developing and distributing improved wheat germplasm to developing countries. Both CIMMYT and OSU make crosses, select in early generations, and distribute sets of breeding lines to cooperators in developing countries. CIMMYT provides technical training in practical plant breeding, plant pathology, agronomy, and cereal technology for national program staff of developing countries, whereas OSU provides formal postgraduate training leading to the M.S. and Ph.D. degrees in crop science and plant pathology to students from developing and developed countries.

CIMMYT and OSU collaborate in working toward meeting their common goals in a complementary fashion. It was projected that a systematic intercrossing of winter and spring wheats would provide new and extensive genetic variability that would lead to substantial genetic improvement of both winter and spring wheats that could be used in developing countries. The procedures used are briefly as follows:

1. Winter wheat germplasm is identified as parental materials by OSU and sent to CIMMYT-Mexico.

2. Spring wheat germplasm is identified by CIMMYT.

3. Winter x spring wheat hybrids are made in Mexico and the first generation seed is divided in three ways. Fifty seeds are sent to Oregon, fifty seeds are planted in Mexico, and the remainder are kept in reserve in Mexico.

4. The F_1 generation plants grown in Oregon are intercrossed (double crosses) or crossed to another winter variety (three-way crosses).

5. The F_1 generation plants grown in Mexico are similarly intercrossed or crossed to spring varieties or spring x spring F_1's.

6. In the subsequent generations selection for winter growth habit and agronomic characteristics useful for areas where winter hardiness is required is done in Oregon at three locations which differ in annual rainfall and other factors. Three locations in Turkey are also used for winter hardiness and disease resistance screening.

7. In Mexico selections are made for spring growth habit to produce varieties useful in areas where winterhardiness is not critical. The format and procedures established by CIMMYT since its inception as an international center are used.

8. OSU identifies germplasm potentially useful in developing countries and organizes an International Winter x Spring Wheat Screening Nursery which is sent to more than 50 countries and 120 locations. Results from the cooperators are returned to OSU and a summary is made and returned to the cooperators. OSU also organizes an international winter wheat yield nursery for distribution. As with the screening nursery, the results are returned to OSU and an analysis of the results and summary is prepared and distributed.

9. CIMMYT reviews the materials in the field in Oregon and through discussions with OSU, determines what germplasm will be used in future breeding.

10. OSU accepts graduate students for M.S. and Ph.D. training from developing countries. Thesis research projects are done in Oregon and occasionally in Mexico. These students are sponsored by OSU, national governments, Rockefeller Foundation and other agencies, through funding received by OSU from USAID, and by CIMMYT through their binational funding arrangements.

11. OSU organizes in-country symposia for national program staffs and also visits national programs periodically.

More details and specific program goals are available in the document prepared by OSU for USAID "A collaborative Oregon State University-CIMMYT program directed toward the improvement of winter wheats for the developing countries, based primarily on a winter x spring wheat hybridization approach" which was provided to the review team.

The key element of the CIMMYT-OSU collaboration is that OSU directs its primary attention to development of germplasm with winter growth habit and CIMMYT directs its main efforts toward germplasm with spring growth habit.

This program is implemented from multiple funding sources, but principally through the U.S. Agency for International Development. Approximate contributions are given below to indicate the collaborative nature of the program.

OSU provides:

Faculty and staff salaries, laboratory and field facilities. Cost sharing roughly $60,000 per year in salaries.

Oregon wheat industry provides to OSU:

Direct funding for Oregon wheat improvement about $65,000 per year
(Land usage by individual farmers 20 to 30 acres per year)

USAID Contract to OSU:

About $450,000 per year

National governments and agencies for graduate student support: (In addition to USAID) through direct scholarship to students.

Average 10 students per year at $20,000 per student - $200,000

CIMMYT provides:

Support of about two graduate students and short term visitors each year - $40,000

Special funds for travel and operations - $5,000 per year from core funds

Hybrid seeds and consultations with staff

Observations on the Program that are Relevant to CIMMYT's Objectives

The program has produced the following results with respect to development of improved wheats, training, and mutually beneficial interactions among the staff of CIMMYT, OSU and scientists in developing countries.

1. Development of Improved Wheats

CIMMYT has been mainly responsible for the development of spring wheats by this collaborative program, whereas development of improved winter wheats has mainly been the responsibility of OSU. However, the successes in developing improved germplasm required the collaboration of CIMMYT and OSU in that independent programs would have exhibited much slower progress.

The breeding program of OSU consists of a well organized and pragmatic approach to the development of improved lines of winter wheat through the use of screening at three or more diverse sites in Oregon, and an international network for screening, performance testing, and exchanging germplasm. Some examples of the progress made by the collaborative program have been described in "Probing the Gene Pools" (CIMMYT Today, No. 12).

Spring Wheats

The Veery selections resulted from this program and are proving to be extremely useful in many parts of the world with varietal release of related materials in Mexico and Pakistan, and projected for several other countries. A high proportion of the lines in the IBWSN and ISWYN of CIMMYT are from this program, and are ranking at the top in yields Useful characters transferred from winter to spring wheats include resistance to stripe rust and *Septoria tritici*, and increased tillering. It is also possible that some gains in heat and drought resistance may be obtained in spring wheats by this approach.

Winter Wheats

Winter wheats that contain genes from spring wheat have been in OSU international screening and performance nurseries for 10 years. Several of these materials are presently in advanced trials or have been released as varieties (Table 1). Possible problems with the test sites in Oregon are that they tend to favor lines which are later than the lines adapted to the warmer Mediterranean climates characteristic of winter wheat areas in some developing countries. It was proposed by the OSU staff that materials recently imported from China may enable the program to develop lines that have both earliness and adequate winter hardiness.

2. Training

The foreign graduate students and US students (who are pursuing careers in international agricultural development) who are presently enrolled in the Cereal Project at OSU are listed in Table 2. Table 3 lists former graduate students of the OSU Cereal Project.

It is apparent that OSU has an impressive record in training graduate students who mainly have received their education while studying wheat, and have subsequently or will in the future undertake careers in plant breeding and agronomy in developing countries or international programs. Some of these students are presently working for CIMMYT (e.g. G. Ortiz, M. Alcala, P. Brajcich, J. Merrick), others have conducted their thesis research in Mexico with CIMMYT, and some are members of national research organizations where CIMMYT has regional programs (e.g. J. Tola, Ecuador). The OSU Cereal Project emphasizes team work and a pragmatic field approach to graduate education. Its staff are sensitive to the special needs of foreign students and attempts to design research projects that are relevant to the future careers of the students.

Workshops have been organized by OSU which complement the activities of CIMMYT, e.g. a workshop was conducted in Peru in 1981 in which OSU staff, national staff of Peru, and CIMMYT Andean Region staff discussed the problems confronting wheat improvement (refer to the report on this workshop).

3. Beneficial Interactions among the Staff of CIMMYT, OSU and Scientists from Developing Countries

An example of workshop activities in which scientists from CIMMYT, OSU and developing countries beneficially interact was presented earlier. In addition it might be anticipated that CIMMYT would take advantage of the broad range of expertise in the different disciplines at OSU. In some cases beneficial interactions of this type have occurred. For example, OSU staff have assisted CIMMYT in the areas of the application of computers to plant breeding (through the work of N. Scott), in weed control (through the work of Dr. Appleby), and in screening for tolerance to high levels of aluminum (a laboratory screening test has been used and in addition appropriate field sites are also available on the western foothills of the Cascade range), and for tolerance to barley yellow dwarf virus. Another area in which beneficial interactions might occur in the future is in the investigations of co principal investigation of Dr. W. L. McCuistion. He is evaluating lines with respect to the degree of spreading during early vegetative growth. This character has relevance to the ability of wheats to suppress weeds through competition for light, and slow down the flow of water on the surface of the soil, thereby reducing soil erosion. Weed control and soil erosion are important factors constraining wheat production and rural development in many developing countries. In addition OSU has a program of research on the development of production technology for winter wheat in Mediterranean climates which is providing the opportunity for beneficial interactions between the staff of OSU and agronomists of CIMMYT and national programs. It is also suggested that CIMMYT and OSU scientists might more strongly pursue the opportunities that exist for more fundamental studies of the ecological zones of adaptation, and of the environmental physiology and genetics of winter and spring wheats. These studies could accelerate the development and use in developing countries of the materials coming from the winter x spring wheat collaborative breeding program.

The staff of OSU and CIMMYT exhibited close and congenial interactions which are likely to continue to produce mutual benefits in areas specificially described in the narrative of the collaborative program, and in additional areas providing substantial indirect benefits to CIMMYT.

Conclusions and Recommendations

The major conclusion of the team is that the cooperation of CIMMYT and OSU is effective, fruitful and mutually beneficial. CIMMYT's and OSU's approaches and philosophy in breeding and improving material in cooperation with developing countries are very similar and characterized with the same sense of pragmatism, efficiency and dedication. As a result of this cooperation, significant advances were made in the improvement of both winter wheats and spring wheats for developing countries. The team wishes to commend CIMMYT, OSU, and USAID for this collaborative program and recommend that its stability and continuity should be ensured by a long term commitment of adequate resources by the parties concerned.

The discussions which were held with CIMMYT and OSU staff during this short visit led the team to recommend that the Panel should examine further the following points:

1) A first question relates to the mandate of CIMMYT as regards the improvement of winter wheats in developing countries, in particular the role which the centre intends to play in this field and the mode by which it should discharge its mandate. This point should be clarified further in the light of additional information to be provided by CIMMYT to the Panel on the relative importance and potential of winter wheats in developing countries in terms of acreage, production and consumption. It should also deserve further consideration in relation to the mandate of ICARDA, in particular as regards the improvement of cereals for high altitude areas in its region[1], and more generally for durum wheats and barley.

2) As the CIMMYT and OSU cooperation develops, an increasing number of research workers and sites in these countries are involved. The amount of genetic material which is exchanged, distributed, improved and tested is also growing. The team has noted that both CIMMYT and OSU staff have frequent consultations and interaction on their respective programs. They also have many opportunities to seek the views and assess the needs of their cooperators in developing countries. It is likely, however, that the growing scale of this cooperation may soon require that a mechanism for more systematic and periodic consultations and evaluations be established, building on the excellent working relationships which already exist among CIMMYT/OSU staff and their cooperators in developed and developing countries. The team does not wish to be more specific at this stage as regards the nature of the mechanism which should be established for the overall scientific guidance of these activities worldwide. It is clear, however, that their present geographical scope and the promises which they hold at this stage will soon call for some kind of more formal consultations on priority setting and joint assessment of the findings by the participants in the program. This question is part of a broader issue which concerns the guidance and management of other international nurseries and testing programs of CIMMYT which the QQR Panel will examine.

3) Another consequence of the growing cooperation of CIMMYT and OSU is that further advances in the spring x winter wheat program will gradually require the involvement of a wider spectrum

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[1] The countries covered by ICARDA's mandate extend from Morocco to Pakistan and from Turkey to the Sudan.

of scientific disciplines in order to address more basic research questions which are faced when crossing the winter and spring wheats which have basically different physiological cycles and environmental requirements. It is likely that these more basic research requirements will involve not only other scientific disciplines besides breeding, both at CIMMYT and at OSU, but also a number of other advanced research institutions in developed and developing countries, possibly by means of research contracts and/or collaborative research arrangements. The CIMMYT/OSU collaborative program is an example of a biinstitutional relationship in international agricultural development that can capture the complementing disciplinary expertise to mutual benefit. Such relationships should be discussed in broader context during the QQR Panel's examination of the future needs and priorities of CIMMYT in several basic research disciplines and on the most appropriate ways and means of meeting these requirements.

With the above conclusions and observations, the team wishes to reiterate its conviction that the aims and results of the cooperative activities of CIMMYT and OSU deserve commendation and continuing support in their common goal of improved food production and productivity in the developing world.

ATTACHMENT B

SOURCE: Excerpt from Page 47 from the report by The Consultative Group on International Agricultural Research, Technical Advisory Committee, Report of the Second TAC Quinquennial Review of the International Maize and Wheat Improvement Center (CIMMYT), TAC Secretariat, Food and Agriculture Organization of the United Nations, August 1983

C.37. To increase the yield potential of spring bread wheats, the gene pools of spring (S) and winter (W) wheats have been combined. Each year a large number of such SxW crosses are made and many of such F1s are either backcrossed to spring wheats or to other SxW wheats. A group of selections named Veery is a result of this program. These selections have shown outstanding performance in worldwide testing and are being widely adopted in many National Programs. This work is down in cooperation with Oregon State University, where the emphasis is placed on winter wheats.

ATTACHMENT C

CORE CONTRIBUTIONS TO CIMMYT, 1981-1985

(Includes Unrestricted and Restricted Core[1])

Donor	1981	1982	1983	1984	1985[2]
	- thousands of dollars -				
Australia	213	373	504	481	620
Brazil	-	-	-	150	150
Canada	1,214	1,229	1,311	1,198	1,260
China	-	-	-	50	50
Denmark	274	252	247	296	270
European Economic Community	-	-	547	521	502[2]
Ford Foundation	150	75	139	173	100
France	211	158	155	88	220
Germany	745	740	750	718	480
Inter-American Development Bank	3,350	3,650	2,988	3,563	3,610
International Development Research Center (Canada)	-	-	79	67	70
India	-	46	53	41	50
Ireland	-	-	36	65	70
Japan	799	900	911	935	930
Mexico	348	-	207	387	387[2]
Netherlands	462	337	115	171	210
Norway	-	-	103	158	120
OPEC Fund	-	740	325	160	200
Philippines	100	46	100	13	50[2]
Rockefeller Foundation	400	300	100	100	100
Saudi Arabia	-	-	300	300	300[2]
Spain	200	200	200	200	100
Switzerland	467	545	623	903	690
United Kingdom	462	568	562	541	550
United Nations Development Prog.	1,093	1,653	1,327	1,695	1,430
United States	5,600	6,550	6,000	6,000	6,270[3]
World Bank[4]	2,480	-	-	1,541	1,300
Total	18,568	18,362	17,682	20,515	20,087

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[1] Excludes extra core and cooperative projects.
[2] Preliminary estimate.
[3] Includes $270,000 for Oregon project; not yet distributed.
[4] World Bank acts as donor of last resort: hence annual level can vary sharply.

Source: CGIAR Secretariat, April 17, 1985

QUESTIONS SUBMITTED BY SENATOR D'AMATO

AID NARCOTICS-RELATED DEVELOPMENT ASSISTANCE

Senator D'Amato: In your statement, you say AID funds efforts to substitute food crops for drug-orientated crops. How much money is spent in total on crop substitution programs? How closely does your agency work with the State Department and the Drug Enforcement Agency? In your opinion, is crop substitution an effective remedy to the international narcotics trafficking problem?

Mr. McPherson: AID has ongoing narcotics-related development projects in Pakistan, Peru and Bolivia which were designed to respond to the Congressional recognition that narcotics is, in part, a development problem and the mandate in Section 126 of the Foreign Assistance Act (FAA) that AID give priority consideration to a reduction in the production of illicit drugs. These projects are actually broader than simple "crop substitution." They are providing a wide range of development benefits as part of the overall U.S. narcotics effort.

Life of project costs for the 3 projects are:

(1) $30 million for the North West Frontier Development Project in Pakistan. (This includes the U.S. contribution to the Special Development and Enforcement Plan for Pakistan being carried out under the auspices of the United Nations Fund for Drug Abuse Control);

(2) $18 million for the Upper Huallaga Valley Development Project in Peru; and

(3) $14.4 million for the Chapare Regional Development Project in Boliva.

Totalled our development assistance designed to provide alternative sources of income and broad development benefits to narcotics-producing areas is $62.4 million. The Mae Chaem Watershed Project in Thailand will have, as one result, a reduction in opium production, but its primary purpose is to rehabilitate the watershed and reverse environmental degradation. It would not be accurate to describe it as a project designed to reduce narcotics production.

AID is not directly involved in law enforcement activities or joint efforts with the Drug Enforcement Agency (DEA). Our projects in Pakistan, Peru and Bolivia are linked to INM projects to assist the host government in enforcement of anti-narcotics laws and eradication of narcotic crops. We work quite closely with the State Department's Bureau for International Narcotics Matters (INM) in both the design and implementation of projects in narcotics producing regions. Development efforts and provision of alternative sources of income are only one part of the "remedy" to the problem of narcotics production and trafficking. Alone, they would be completely ineffective. Enforcement of laws against the production and transit of illicit drugs is the sine qua non for success of the fight against narcotics. Along with enforcement and eradication efforts supported by INM, our development assistance can play a useful and effective role in shifting farmers and regions from a dependence on narcotics production to economic activities that will contribute to the long-term development of their nations.

FOOD ASSISTANCE TO NORTHERN ETHIOPIA

Senator D'Amato: What are we doing to ensure that the food assistance going to Ethiopia is being sent to the northern part of the country where the need is greatest, and not being held up by the Marxist government?

Mr. McPherson: We are taking three steps to make sure that food and other relief supplies get to all the needy in Ethiopia.

First, we are providing most of our assistance through private voluntary organizations rather than through the Ethiopian government. These organizations take the responsibility for distribution of assistance according to plans which we review in advance, and fair distribution -- nonpartisan and nonsectarian -- is one of the requirements for our approval. We have audit rights to ensure that these plans are properly carried out.

Second, in the portion of our assistance that is being provided through the Ethiopian Government's Relief and Rehabilitation Commission, we have agreed with the Ethiopians on a plan which provides for fair distribution and which is monitored by independent outside auditors. Our Mission in Addis Ababa has confirmed that the Ethiopian government is allowing these auditors (provided by CARE) to travel freely and carry out their duties of inspection.

Third, we are now developing a plan for further distribution in which we are specifying sites in the north which will receive agreed-on quantities of food in proportion to their needy populations. In carrying out this plan we will provide for monitoring by Catholic Relief Services and World Vision, two private organizations with extensive experience in Ethiopia.

Thus in all of these cases we will have agreed-on arrangements to ensure fair distribution, and monitoring by independent organizations to ensure that the agreements are in fact carried out.

ISRAEL: SUPPLEMENTAL ASSISTANCE

Senator D'Amato: The Administration has tentatively approved Economic Support Fund (ESF) funding for Israel at $1.2 billion for fiscal year 1986, but has not submitted a request for supplemental funds for this fiscal year. In light of the fact that Israel has just passed an austere budget, do you support an additional $800,000,000 in supplemental appropriations for Israel?

Mr. McPherson: We are prepared to provide supplementary economic assistance to the Government of Israel in support of its efforts to restore balance of payments equilibrium, reduce inflation, and set the stage for a resumption of non-inflationary economic growth. For the past several months we have been exploring ways in which our support can be of maximum benefit in these respects. That process is still going on. I don't think it has yet reached a stage where it would be productive to request a supplemental appropriation.

The budget approved by the Knesset for the fiscal year which began April 1, 1985 calls for expenditures at about the level originally proposed for the fiscal year which just ended. Unfortunately, that budget was not adhered to. If strictly implemented, the new budget would therefore be a marked improvement but past experience would suggest this is unlikely without new budget controls. Legislation recently enacted by the Knesset to improve expenditure discipline is encouraging in this regard.

To be truly effective, fiscal restraint must be complemented by appropriate monetary policy. The Israeli authorities need to reduce the amount of money creation connected with the financing of the budget deficit. Exchange rate policy is also important. Production of goods and services for export and for import substitution needs to generate real economic profits if Israel is to avoid large difficult to finance deficits in its balance of payments.

Last month, Herbert Stein and Stanley Fischer were invited to Israel to consult with the government as private economists and provide advice on the government's program and ways that it could be implemented effectively. Their discussions were very productive in identifying the basic outlines of a potential understanding between our two governments which would give us assurances that their economic program and implementation process will deal effectively with their problems. We need such an understanding if supplementary assistance for Israel for FY 1985 is to be truly helpful. We and our Israeli counterparts are now in an intensified phase of our dialogue as a result of the Stein/Fischer visit. Our sense of urgency is magnified by the desire to be responsive to the Congressional budget timetable. But as Secretary Shultz indicated in earlier testimony, our ability to move forward also depends on further developments in Israel.

GRADUATES AND BENEFITS OF U.S. ASSISTANCE

Senator D'Amato: Although I believe U.S. economic assistance can be an effective foreign policy tool, I am uncertain as to our track record. Can you name a few nations which have graduated from U.S. aid and are not dependent upon such aid? Is U.S. aid just a band-aid program?

Mr. McPherson: Our assistance has helped bring about many striking development successes. Countries like Brazil and Korea, once major recipients of our development assistance, have become middle-income countries and are now important friends and trading partners.

U.S. foreign assistance is by no means a band-aid. It has helped bring about permanent change for the better in the lives of millions of people in the Third World. Besides having helped many countries establish the basis for long-term self-sustaining economic growth, our assistance has sponsored many breakthroughs which have benefitted a broad spectrum of other developing countries. For example, our aid helped bring about the "Green Revolution" which has made South Asia self-sufficient in food production. We helped eradicate small-pox. We have funded agricultural research which recently produced a new high-yielding sorghum variety to help overcome food shortages in Africa. We have sponsored health research which helped produce the new Oral Rehydration Therapy capable of saving millions of children and we are now striving for a breakthrough on malaria vaccine.

QUESTIONS SUBMITTED BY SENATOR INOUYE

EL SALVADOR HEALTH SYSTEM VITALIZATION PROJECT WASHINGTON MANAGEMENT

Senator Inouye: Mr. McPherson, I am troubled by your response to the letter Chairman Kasten and I wrote to you on the delays in implementing the "Health Systems Vitalization" Project for El Salvador. It appears that a junior level AID project officer is being made the scapegoat for agency offlcals in Washington who did not do their jobs.

It was not the manager of the Health Project in El Salvador who gave repeated assurances to congressional committees that the project was on track.

Is there no-one in AID's Washington Headquarters who is being held accountable?

Do you think AID will ever be able to improve its program management and implementation, if senior management officials are not held accountable for failures in program management and implementation?

It is my understanding that the AID chain of command for projects in El Salvador runs from the assistant administrator for Latin America, Mr. Victor Rivera, to his deputy, Marshall D. Brown, and on to Peter Askin and Robert Queener, both of whom have a more direct responsibility for El Salvador.

Are you satisfied with the performance of each of these individuals and their discharge of their responsibilities in this matter?

Mr. McPherson: No. I am not satisfied with the way the Health Systems Vitalization project was handled either in Washington or in El Salvador. In the letter that you mentioned, I stated that the delays and mismanagement of this project were unacceptable.

In regard to A.I.D.'s chain of command, I am ultimately responsible for the way all A.I.D. programs are managed and I am accountable for the Agency's overall performance. In this sense, I assume responsibility for the unacceptable delays in the implementation of this project.

Inside the Agency, I look to the Assistant Administrator for Latin America and the Caribbean, as the senior political appointee reporting directly to me with responsibility for programs in Central America, to assure that our programs in that region are properly managed. I have conveyed to him my unhappiness over the way the Health Systems Vitalization project has been conducted. I believe he has taken appropriate corrective action. Among other things, he has directed that a new project manager be appointed for this project. This does not mean that we have held the present project manager accountable for all the problems that this project has encountered or that he is being made a scapegoat. Rather, we have concluded that we need stronger and more experienced first line management for this important project. We are satisfied that this action, along with other steps being taken in the field and in Washington, will resolve the implementation problems and improve our monitoring capability for this project.

EL SALVADOR HEALTH SYSTEMS VITALIZATION PROJECT MANAGEMENT

Senator Inouye: Your response to our letter attempts to minimize the failure on A.I.D.'s part by saying, "only a small amount (just over $600,000) of Project funds was specifically required for emergency medicines and health supplies." This is quite a departure from the supporting information which was supplied to the committee along with the reprogramming request. That information documented a requirement for urgent committee approval by stating:

"A.I.D. will finance the rapid procurement and delivery of pharmaceuticals, medical supplies, and medical equipment for the Ministry of Health, which currently is facing critical shortages of all of these commodities."

Furthermore, the "Activity Data Sheet" which accompanies the reprogramming indicated that $19,598,300 was to be used for the purchase of commodities. It was said that, as part of the project, A.I.D. would provide technical assistance "to enable the Ministry of Health to effectively handle this large and rapid influx of commodities..."

This information does not suggest, as your letter states, that "only a small amount" of project funds was required for emergency medicines.

Why has A.I.D. sought to minimize its failings rather than dealing with them in a straightforward way?

Mr. McPherson: My letter was not intended to minimize A.I.D.'s failings with respect to the El Salvador Health Project. I stated explicitly that the delays have been unacceptable, that the decision to use host country contracting was a mistake, and the delay in the decision to switch back to A.I.D. procurement reflected unsatisfactory project management.

Our procurement strategy, was always intended to be two-pronged. Unfortunately, our reprogramming notification of July 11, 1983, did not make a clear distinction between urgently needed procurement through G.S.A. and less urgent, but still critical procurement (of larger amounts) which would proceed later and would supply the health system over the two-year life of the project. Apart from the 1983 reprogramming notifications, we attempted to convey this procurement strategy in other ways to Congress. Testifying before a House Appropriations Subcommittee hearing August 3, 1983, Acting Assistant Administrator Marshall Brown stated that the $25 million requested for the project "will run over a two-year period, the actual expenditures. We will be buying supplies for them to supply a 24-month period. We are obligating the funds on a different schedule, but it is to cover a 24-month expenditure period." (Reference: Foreign Assistance and Related Programs for 1985, Hearings before a subcommittee of the Committee on Appropriations, House of Representatives, Ninety-Eighth Congress, Second Session, page 79). This statement reflected the implementation and procurement plan contained in the Project Paper (PP), which serves as the basis for review and authorization of project funding. For example, the procurement plan on page 124 of the PP referred to "emergency procurement of a short list of selected items" needed urgently by the Government of El Salvador and non-emergency procurement, for which "the arrival date is not as critical as that of the emergency procurement." Since PPs are provided to Congressional committees only upon request, I do not believe your staff had the opportunity to view the procurement within the context of the plan contained in the project paper.

In a letter from Kelly Kammerer, Director of Legislative Affairs, to Chairman Long on February 9, 1984, we tried to distinguish between emergency procurement and subsequent, less-urgently needed procurement. We stated that "the General Services Administration is procuring a list of basic medicines and supplies valued at $587,000, which the health system needs quickly." Further that "additional commodity procurement valued at $9.8 million will be initiated in the next two-three months," much of that through host-country procurement. In retrospect, this communication probably was not as explicit as it should have been on the difference between emergency and non-emergency procurement.

We provide this clarification to assure you that the statements in my letter to you of March 28, 1985, regarding procurement strategy are consistent with our original plan. We still, of course, take the responsibility for delays in carrying out that plan and less-than-precise description of our procurement strategy in the reprogramming notifications.

Senator Inouye: You say, "I have personally reviewed the situation, have satisfied myself as to what did or did not happen, and have directed that corrective actions be taken at the Mission level."

Am I to understand that you found no need for corrective actions at the A.I.D. Washington level? What lessons has A.I.D. learned from this failure? Are the lessons to be learned only at the Mission level, or should A.I.D./Washington also learn from the experience?

Mr. McPherson: I think that we as an Agency, both at the Mission and Washington levels, have learned a number of lessons from this experience, particularly in the areas of communication and contract approaches.

- It is obvious that we did not communicate clearly on the Project procurement strategy to Congress, and there is need for improvement in this area. Further, given the importance of this Project and the relatively short, two-year time-frame, we need a better system for Washington oversight of the Project. We are asking the Mission to begin reporting to Washington on a monthly basis regarding the status of procurement actions, goods delivered to beneficiary use points and responses to any problems encountered. This will enable us to keep abreast of problem projects and the need for Missions to initiate corrective actions.

- We also found that contracting by the GOES for projects of an urgent nature is not an appropriate procurement method. As I mentioned earlier, we have switched to direct A.I.D. procurement mechanisms with the GSA which will reduce waiting periods between the initiation of a given action and the final delivery of goods in country.

PROGRAM MONITORING AND IMPLEMENTATION

Senator Inouye: In a May 1982 report to this committee on A.I.D.'s program monitoring and implementation it was stated: "The Administrator of A.I.D. has sent a cable to all field missions stressing the importance of improving performance in implementing programs and in attacking portfolio implementation problems."

Would you agree that the history of the Health System Vitalization Project in El Salvador indicates that field missions have not fully accepted the importance of improving performance in these areas?

Mr. McPherson: While the initial implementation choices made in the El Salvador Health Systems Vitalization project turned out to be inappropriate, this does not mean that the A.I.D. Missions down play the importance of implementation. Working with host country organizations to accomplish procurements can help to increase those organizations' capabilities, thus helping to improve performance in future procurements. We recognize many improvements are still needed in implementation of A.I.D.-financed projects, but we believe that the field Missions understand and accept the importance of improving performance in implementing programs. Delegations of authority to Missions continue to be increased. Workshops and project implementation training courses are conducted periodically in Washington and at overseas posts.

REDUCTION IN OPERATING EXPENSES

Senator Inouye: The President's budget request for A.I.D. operating expenses for fiscal year 1986 entails a reduction of $5,753,250.

Does this reduction assume that the Congress will enact legislation to reduce salaries of Federal employees? What are the assumed savings from the pay cut?

Mr. McPherson: Yes, the reduction is based in part on a five percent cut in Federal salaries. The savings which would result from such a pay cut were estimated to be $6.7 million.

Senator Inouye: A.I.D. has embarked on two major program initiatives in the past year; the Central America Initiative and the African Drought Initiative. If these are not to be "paper" initiatives, A.I.D. will have to devote real resources to them.

What is the full year cost of increases brought on by the Central American Initiative and the African Drought Initiative? If the reduction in operating expenses is enacted, how will A.I.D. fund these initiatives?

Mr. McPherson: We estimate the annual operating expense costs of these two initiatives to be about $12.9 million. This is excluding the annual cost of the Inspector General's Honduras operation. While we will no doubt encounter some difficulties, we anticipate obtaining the necessary resources to cover the requirements of these initiatives through other reductions including savings from the reorganization of the agency.

Senator Inouye: If A.I.D. devotes additional personnel resources to these initiatives, a decreasing budget will require off-setting reductions in other bureaus. Is that not correct? What bureaus will face reductions?

Mr. McPherson: Yes, that is correct. I am considering structural changes such as combining the Near East and Asia bureaus as well as functional reorganizations of S&T, PPC, FVA, and the Management Bureau. Other Washington offices and bureaus may also have their workforce levels reduced somewhat. In addition, personnel should be made available through regional management of some of our smaller missions' programs and reducing the staff levels of others.

Senator Inouye: I understand that A.I.D. is contemplating a rather significant structural reorganization of offices and bureaus. What offices and bureaus are to be restructured? How will they be changed? Will there be a net reduction in A.I.D. personnel? I suspect this reduction will be largely offset by increasing use of contract personnel. Am I mistaken?

Mr. McPherson: Not all of the details of the reorganization have been worked out. However, I can tell you that we will be consolidating the Near East and Asia Bureaus, reorganizing the internal structure of the Bureau for Program and Policy Coordination and the Bureau for Science and Technology, and consolidating the Office of Commodity Management and the Office of Contract Management in the Bureau for Management.

We anticipate net reduction of about 235 personnel in A.I.D. While there may be some increases in the use of contract personnel, where the work must continue to be done and it can be shown that using contractors instead of direct hire personnel is more cost effective, such increases will be minimal because the funds will not be available to provide for replacing direct hire staff with contractor personnel.

A.I.D. PROJECT REVIEW SYSTEM

Senator Inouye: Mr. McPherson, a prominent headline in the January 1985 edition of A.I.D.'s in-house new monthly Front Lines states "A.I.D. Benefits from Management Initiative." The text of the article cites numerous examples of management initiative. Among them, I found the following:

"Today, all bureaus are required to review their project portfolios at least twice a year. If a project does not appear to be progressing properly, it is reviewed or evaluated. Consideration is given to redesigning the project to make it more effective.

If this is not possible, every effort is made to close down the project and deobligate the funds for subsequent reobligation in new, workable projects."

Would you elaborate on the operation of this review system?

Mr. McPherson: The Front Lines article accurately summarizes A.I.D. Bureau project reviews. Although the objective of the reviews is consistent from Bureau to Bureau--to measure performance against set criteria and to take corrective action(s) where necessary--the review process differs somewhat from Bureau to Bureau. Following is a summary of each of the regional Bureau's project portfolio review process:

The Africa Bureau review system is based on a combination of field and AID/W reviews. The Bureau has developed standard guidance and criteria. Each Mission reports every six months on implementation progress. The reports on progress, which are tied to specific project objectives, compare scheduled (or planned) progress with actual achievements. Certain criteria, primarily financial, are used as benchmarks to identify "problem" projects that may need special attention. The report ends with a proposed action plan for the next 120 days. That plan becomes the benchmark for the next report.

Upon receipt, the report is reviewed by an AID/W committee that provides feedback to the field about ways of resolving implementation issues identified. Senior officials review selected countries and selected projects periodically. The fundamental benefit of the review system is in the field, of course, where the program managers make in-course corrections and establish their action agenda for each project.

The Asia Bureau reviews its entire project portfolio twice a year. The basis for the review is the Bureau's Project Implementation Report (PIR). A one page PIR is prepared by each Mission for each project. The PIR covers basic project data and narrative comments on project objectives and status, major anticipated actions assessment by the Mission Director.

The PIRs provide the basis for Assistant Administrator-level, country-by-country portfolio reviews in May and November. A preliminary review of each country portfolio identifies those projects which should be brought to the attention of the Bureau Administrator: those that are experiencing major difficulties and may require corrective action (redesign, or renegotiation of government support, or deobligation) as well as successful projects which may be used as models for replication. Following the Washington reviews, cables sent to the Missions provide results of the review and details of any recommended follow-up actions.

Pipeline reviews are held twice a year for each overseas Mission of Latin American and the Caribbean. In addition to the review of individual projects and the identification of problem projects requiring special corrective steps (or possibly deobligation), the Mission's overall performance in liquidating the project pipeline is reviewed. If the performance is below average, the

Bureau tries to identify whether the causes are project-specific or more general. To the extent the causes are generic, the Bureau seeks to take them into account in reviewing and agreeing upon future program direction and level. Efforts are also made to resolve these generic problems, e.g., special training in financial management or procurement procedures from host country officials.

The Near East Bureau requires that all Missions and Washington offices managing projects review their portfolio formally at least once per year. In addition, semi-annual project status reports are required, and quarterly "alert list" reports are required for projects that are experiencing difficulty. Through these reviews and the project status reporting systems, the Bureau seeks to ensure that problem projects are redesigned in a timely manner.

DEOBLIGATION-REOBLIGATION AUTHORITY

Senator Inouye: What amount of funding was deobligated from unworkable projects and subsequently reobligated for "new, workable projects" in Fiscal Year 1984?

Mr. McPherson: We deobligated a total of $206 million in FY 1984, about three-fourths of which was from the Syria pipeline. Of this total amount, $144 million was reobligated in FY 1984, $24 million was returned to the Treasury, and $38 million will be reobligated in FY 1985. In addition, $156 million of FY 1983 deobligations were reobligated in FY 1984.

Senator Inouye: What amount do you estimate will be deobligated and subsequently reobligated in Fiscal Year 1985?

Mr. McPherson: In FY 1985 we have deobligated a total of $2 million to date which, along with the $38 million in prior year deobligations, should be reobligated this fiscal year. It is difficult to estimate how much in additional deobligations and reobligations will occur during the balance of FY 1985. However, further deobligations should be relatively small since most of the large sources of unexpended funds have been exhausted.

Senator Inouye: Have you found the deobligation-reobligation authority provided to you by this subcommittee a useful management tool?

Mr. McPherson: Yes, A.I.D. has found deob-reob authority useful. The Agency has used deob-reob authority to free funds from projects performing below expectations and ones where the project no longer serves our priorities or the priorities of the recipient country. As a result of the availability of deob-reob authority, the Agency has been able to provide a significant level of funds for disaster relief in the Andean region -- which otherwise would not have been possible. In addition, several countries, especially Egypt, have been able to free up funds from old projects for more productive uses.

Senator Inouye: Why have you not requested the renewal of this authority for Fiscal Year 1986?

Mr. McPherson: We are not requesting deob-reob authority in the FY 1986 budget request for two reasons. First, the majority of large projects considered candidates for deobligation are expected to have been deobligated by the end of FY 1985. Anticipated deob-reob activity by project would involve small sums of money and would be costly administratively to reprogram. Second, deob-reob authority is less flexible than new budget authority, since deobligated funds can be reobligated only in the country in which they were deobligated or transferred to the Andes. Because deob-reob authority is considered by OMB to be new budget authority in terms of budget concepts and procedures, OMB argued it should be considered as a trade-off against new budget authority in FY 1986. In the context of budget restraint and non-additionality, the Administration decided not to seek its renewal in 1986.

REGIONAL STRATEGIC PLANS

Senator Inouye: On October 30, 1982, in a cable to A.I.D. Missions abroad (State cable #30576), you alerted all Mission Directors to the need to "concentrate on accelerating implementation of Agency program priorities."

Has each regional Assistant Administrator developed a regional strategic plan as you requested?

Please submit a copy of the regional plans to the subcommittee for our files.

Mr. McPherson: Twelve to eighteen months ago, each of the regions drafted a regional strategic plan. We will provide you with copies of these draft plans. Please note that while these provide much valuable information relating to a particular region, they are drafts, and also may in fact be outdated in certain areas.

COUNTRY PROGRAM STRATEGIES

Senator Inouye: In your message to the field you told the Mission Directors, "I view the contribution you and your missions make to the 1985 CDSS (Country Development Strategy Statement) process as particularly important to the future of the Agency." Has each A.I.D. mission submitted a CDSS?

Mr. McPherson: Most missions have submitted CDSS's. We do not require complete strategy statements from countries with very small programs such as Sierra Leone, Congo and Guinea. In other countries, such as Burkina Faso, political or economic uncertainties make long range planning difficult, so we ask our missions to postpone submission of a CDSS until the situation stabilizes. But those examples are exceptions. We have received CDSS's from nearly all our missions.

Senator Inouye: Does each A.I.D. mission have an approved CDSS?

Mr. McPherson: We do have approved CDSS's for nearly all countries. It has taken some time to reach agreement on some strategies, such as those for Zaire and the Dominican Republic. And we still have a few documents yet to review. But we are now in agreement with our missions on how to proceed in virtually all A.I.D. countries.

Senator Inouye: What effect does not having an approved CDSS have on a mission's annual budget? Can a mission's budget increase despite the lack of an approved CDSS?

Mr. McPherson: An approved CDSS provides a reference for resolving a wide range of issues relating to A.I.D.'s policies and program objectives. Not having an approved CDSS puts an especially heavy burden of proof on a mission to demonstrate the merits of its budget or project proposals.

As a general rule, I would not expect a country program level to increase without an approved strategy. However, many factors, including U.S. interests, go into establishing country levels, so there are exceptions to the rule. Tunisia is a good example, where we are now re-establishing a program and do not yet have an approved CDSS, but the budget level has increased.

Senator Inouye: What is the utility of a CDSS? Can project proposals be approved and project design started without an approved CDSS in place.

Mr. McPherson: The CDSS is the basic planning document used by A.I.D. in providing foreign economic assistance to individual countries. The CDSS serves four basic purposes.

First, it provides field missions with a conceptual framework, consistent with overall Agency policy, for developing programs, projects and budgets.

Second, it serves as the basic reference document used by AID/Washington for overall country program review.

The CDSS also provides a major reference point for AID/Washington project reviews.

Finally, the CDSS shows what A.I.D. expects to achieve in a country and how it intends to do it.

It is theoretically possible for projects to "stand on their own" without reference to the analysis that goes into a CDSS. If the mission is operating without an approved CDSS, then additional analysis and justification may be included in the project documentation. However, our strong preference is to have an approved CDSS before beginning new projects. In some cases, the Dominican Republic for example, we have told missions we would not consider new project proposals until we have an approved strategy.

OVERSEAS EXPERIENCE

Mr. Inouye: "Have you found that your overseas experience as a Peace Corps Volunteer has given you a better grasp of the problems and opportunities for A.I.D. development assistance programs?"

Mr. McPherson: Interestingly enough, a similar question was asked of me during an interview with Front Lines, our Agency newspaper, shortly after I joined A.I.D. The response I gave then stands today. "I frankly don't think I'd have a grasp of what I'm trying to deal with if I hadn't lived in Peru (as a PCV) for a couple of years." As a Peace Corps volunteer, I was engaged in staff activities in the A.I.D. Private Enterprise office in Peru. One of my responsibilities was to help organize a local credit union. Another of my activities involved the Food for Peace school food distribution program. These private enterprise and Food for Peace undertakings provided invaluable, first-hand insights when I later served as a consultant on the Joint Committee on Agricultural Development. The main thrust of this Committee was to develop ways to increase the involvement of U.S. universities in A.I.D.'s overseas programs through improved production, distribution and quality of food provided to the LDCs. Such activities have given me a much better grasp of developing world issues and problems and the wide range of opportunities for A.I.D. assistance programs.

Mr. Inouye: "How many of your Assistant Administrators and Deputy Assistant Administrators have had overseas experience in the past five years?"

Mr. McPherson: Over 45% of the Agency's Assistant Administrators and Deputy Assistant Administrators have had overseas experience in the past five years. In addition, several of those who have not had recent assignments overseas are long term career A.I.D. professionals who have had continuous contact with our field programs and are intimately familiar with the development scene. Counting such personnel, approximately two-thirds of these senior managers would qualify.

Mr. Inouye: "Do you find that this rather limited exposure to the realities of the developing world today handicaps the development and implementation of A.I.D.'s programs?"

Mr. McPherson: As noted in the foregoing question, the exposure of A.I.D.'s senior management officials and their involvement in the developing world is far from limited. Nearly half of our senior managers have had recent overseas experience and an even greater percentage have had continuing contact with development programs and/or relevant professional experience at earlier stages of their careers. The knowledge and skills that these officials have brought to A.I.D. have been expanded through independent study and research on pertinent development issues, as well as state-of-the-art developments in their particular areas of expertise. Such exposures have been further strengthened through periodic visits to A.I.D.'s overseas posts. As a result, A.I.D.'s senior managers are quite aware of the realities of the developing world. The knowledge, skills and commitment they have brought to A.I.D. have helped focus its policies and strategies and the implementation of its development programs.

A.I.D.'S HOUSING GUARANTY (HG) PROGRAM

Senator Inouye: Your statement in the Congressional Presentation Document (CPD) is that A.I.D. "is working to enhance its impact by...more fully integrating the variety of A.I.D. resources." Among them you cite the Housing Guaranty Program. I find this somewhat confusing. Is A.I.D. not proposing the termination of the Housing Guaranty Program? How, then, can you say A.I.D. is integrating this program? What measures will A.I.D. undertake to address the need for shelter in development countries?

Mr. McPherson: The decision to terminate the use of guaranty authority for shelter does not mean that we intend to terminate all shelter activity. We believe that the need for shelter is a basic human need and that adequate shelter has enormous economic and political implications for the poor. We expect to use some of the other resources available to us to carry on shelter activities. These activities, as has been the case with HG-funded activities, will be fully integrated with A.I.D.'s overall country strategies.

QUESTIONS SUBMITTED BY SENATOR LEAHY

LEVELS AND EFFECTIVENESS OF AID TO AFRICAN AGRICULTURE

Senator Leahy: A recent article in "The Atlantic Monthly" reports that during the 1970s western countries gave $22.5 billion in economic development aid to sub-Saharan Africa. According to the article, entitled "When Foreign Aid Fails", the results of this aid have been dismal.

Per capita food production in Africa decreased by an average of 1.2 percent per year. Production of major food crops fell 14 percent and continue to fall at 2 percent per year, while the volume of food imports increased by an average of 9.5 percent annually. By 1981, sub-Saharan Africa needed 3.7 million tons of food aid each year, and this year that figure rose to 9.6 million tons.

1. What steps is AID taking to reverse this trend? What specific results do you expect from these steps?

2. What percentage of U.S. economic aid to Africa in FY 86 will be invested in Africa's agriculture? How much of this will directly benefit small farmers?

Mr. McPherson: A.I.D. is concentrating its efforts in agriculture on the food problem. A major reason for the poor past performance has been the absence of consistent policies to promote production, storage and marketing of food. Inadequate attention has been accorded to research, supporting institutions and the promotion of private sector solutions to food problems. A.I.D.'s efforts are focused in these areas. Results from policy change can and have had immediate results. The work on research and developing institutions and private agribusiness must be sustained over longer periods.

In recent years between 47 and 55 percent of total U.S. economic aid to Africa has been in the agriculture sector and for FY 86 it is estimated at about 50 percent. It is the intention of A.I.D. that all of this assistance benefit small farmers. Attempts to define small farmers and what constitutes direct vs indirect assistance present complex problems of accounting. A.I.D. is satisfied that most of this assistance benefits small farmers.

HAITI

Senator Leahy: Mr. McPherson, Haiti is one of the poorest countries in the world. The vast majority of Haitians live below an absolute poverty level of $150 per year. In your Congressional Presentation, you state that the major constraints to economic and social development in Haiti include rapid population growth. You also state that malnutrition and disease, which have produced the lowest life expectancy of any nation in the Western Hemisphere, "argue strongly for a substantial U.S. Foreign Assistance Program."

Why are you reducing your assistance to Haiti for population planning from $3.0 million in FY 1985 to $1.8 million in FY 1986?

Mr. McPherson: At the time the Haiti FY 1986 Congressional Presentation was prepared, the Haiti program was being subjected to close review. Our intent in the review is to continue to support the Haitian family planning program in both the public and private sectors with increasing emphasis on the latter. A new strategy is being developed which will enlarge the program considerably beyond a largely public sector effort to include private voluntary organizations in the provisions of services. This effort will help Haiti attain the objectives of the ten-year population action plan agreed to by Haitian representatives in the 1984 Mexico World Population Conference.

The private sector effort includes plans for a new Haitian private sector Family Planning Association. The Private Family Planning Resource Center project will help strengthen the quality of family planning services provided nationwide. The project, upon final approval, would be notified to the Congress and would require reprogramming and an increase in population funding in Haiti over the present FY 1985 level of $1.8 million for the existing project, reflected in the FY 1986 Congressional Presentation.

Senator Leahy: Why are you reducing your assistance to Haiti for health from $5.1 million in FY85 to $4.1 million in FY86?

Mr. McPherson: This reflects a decision by USAID/Haiti to reduce direct salary support for the Haitian Ministry of Health, personnel, in favor of more appropriate GOH responsibility for this cost. Also, much of the FY 85 budget for health covers the cost of infrastructure, which will be in place by FY 86. At that time, A.I.D. will emphasize more low-cost health delivery services through private organizations.

Senator Leahy: Why are you reducing your total assistance to Haiti from $30.7 million in FY85 to $30.3 million in FY86?

Mr. McPherson: The figures in the CP reflect a negligible drop in new commitments. In terms of resource flows, however, we estimate a sharp increase to over $40 million in FY 85 from $17 million in FY 84. Depending upon new commitments, the FY 86 level would be some $39 million disbursements.

EL SALVADOR'S PARALLEL AND OFFICIAL EXCHANGE RATES

Senator Leahy: A.I.D. has said that unifying El Salvador's parallel and official exchange rates is an essential element of its economic assistance strategy. Why has all U.S. cash transfer assistance been provided at the overvalued official rate?

Mr. McPherson: Providing dollars for needed imports to assist the recovery of the Salvadoran economy is the primary purpose of this assistance. These dollars have helped produce the increase in El Salvador's GNP in 1984 in spite of the export losses due to insurgency, and have helped end the downward spiral of the 1979-83 period.

The generation of local currency, however, provides an opportunity to achieve additional objectives with balance of payments assistance, and we have sought this in El Salvador. In the past, conversion to local currency has taken place at the official exchange rate, as have official transactions of other institutions with the Government of El Salvador (GOES). The GOES has maintained that conversion at the official rate was legally required. With the creation of a separate account for disbursement of FY 1985 A.I.D. assistance, however, a mechanism now exists for use of a higher rate in conversion. Under this new system, local currency will be generated from the account at the dual official/parallel market rates which will reflect the current proportions of import transactions passing through those markets. This will result in a steadily increasing share of the local currency being generated at the parallel rate.

EL SALVADOR

Senator Leahy: What future economic policy reforms are planned for El Salvador? What conditions will be attached to the $210 million ESF grant for FY 1986?

Mr. McPherson: With our FY 1985 assistance, we are continuing to seek progress toward a unified exchange rate, as well as other steps that would help stimulate economic growth. These other steps include establishment of a public-private commission to propose legislation to stimulate investment and exports; action to restructure the debt of Phase I cooperatives under the agrarian reform, and strengthening of control over foreign debt.

We will begin formulating a specific negotiating agenda for the FY 1986 assistance once negotiation of the measures supported by our FY 1985 assistance is completed and we are able to evaluate the progress towards economic recovery during the first half of 1985. In general terms we will seek further efforts by the GOES to promote exports and to energize private investment, and progress towards completion of the legal and administrative steps involved in the agrarian reform through issuance of definitive titles and settlement of debts.

Senator Leahy: Since 1982, A.I.D. has disbursed $320 million in ESF balance-of-payments support to El Salvador in 11 cash transfers. How did A.I.D. use these cash transfers to influence economic reforms in El Salvador, and what reforms resulted?

Mr. McPherson: We believe that we have had significant success in promoting economic reforms in El Salvador through our policy dialogue. The major accomplishment has been the gradual movement of international transactions to the parallel exchange market. Currently more than 40% of transactions take place at the parallel rate, and we expect that the Government of El Salvador (GOES) will continue to move more transactions into this market, with the aim of unfication of the exchange rate at an appropriate level.

In response to our efforts, the GOES has also undertaken a number of other steps. The following are examples:

--A price-checking unit to prevent the use of false invoicing as a vehicle for capital flight has been established and staffed;

--Payments on agrarian bonds have been increased at our request; and

—Electricity rates were raised in order to reduce the public sector deficit at our request.

Senator Leahy: El Salvador, like Honduras, has so far refused to devalue its currency. In the absence of devaluation, how much more U.S. economic assistance will be required for El Salvador before its economy is stabilized?

Mr. McPherson: We would not characterize the actions of the Goverment of El Salvador (GOES) as a refusal to devalue. Over the past 18 months, there has been a steady movement of international transactions to the parallel exchange market, and away from the official rate. Currently, more that 40% of all international transactions take place at the parallel rate, and we expect the GOES to continue to move steadily toward unification of the exchange rate at an appropriate level.

The GOES has believed, with some justification from the experience of other countries, that a sudden large devaluation after more than fifty years of exchange-rate stability would create great economic dislocations and uncertainty, and create a possible inflationary spiral. The more gradual approach that has been adopted has given people more time to adjust to the inevitability of an adjustment in the exchange rate, and has spread the resulting price increases over a longer period of time.

Given the steady movement of international transactions into the parallel market over the past year, and the likely continued movement over the next few months of additional transactions, the issue of when a devaluation is officially undertaken becomes somewhat academic.

ECONOMIC SUPPORT FUNDS FOR HONDURAS

Senator Leahy: The Kissinger Commission concluded that the effectiveness of economic assistance to Central America depends on significant economic reforms. Honduras has so far resisted reform measures, such as currency devaluation and participation in IMF, which both AID and the Department of State have said are necessary for economic stabilization and growth.

I understand that $72.5 million in Supplemental FY 84 and FY 85 economic assistance to Honduras has recently been obligated. What conditions have been attached to this aid to bring about economic reforms in Honduras?

Mr. McPherson: The USG signed an agreement for $72.5 million of FY 1984 Supplemental Appropriation funds on March 25, 1985. In part, this agreement recognizes recent policy actions by the Government of Honduras (GOH) to stimulate increased private sector investment, production, and export earnings as follows:

- reduction of import taxes for productive goods needed by selected industries;

- adoption of incentives for banana export production;

- passage of a temporary import law providing tax exemptions for the importation of raw materials needed for export production;

- reform of the implementing regulations for the Agricultural Promotion Law;

- creation of the Honduran Federation of Agricultural Exporters and Producer Associates designed to provide technical services in agricultural production and marketing;

- development of the Foundation for Research and Entrepreneur Development to stimulate export production; and

- creation of the Industry and Agricultural Finance Company to provide financing for industrial and agricultural production.

In addition, the GOH agreed to several other, significant economic policy measures. Most important were decisions and plans to promote Honduran exports within the Central American Common Market, begin a process to divest para-statal enterprises, rationalize lumber marketing with an increased role for private firms, reform the tariff structure, and replace government sight bonds with issues of longer maturity.

Senator Leahy: What considerations have been involved in the continuing practice of deferring requirements that Honduras implement necessary economic reforms?

Mr. McPherson: We have not followed a practice of continually deferring requirements for economic reform in Honduras. In association with our balance of payments assistance over the past two years, the Government of Honduras (GOH) has taken a number of significant economic policy measures, including the following:

- introduced a fiscal package in 1984, with Assembly approval, to increase government revenues and reduce expenditures;

- passed an Export Incentives Law to stimulate growth of Honduran exports;

- imposed a moratorium on central government guarantees of private sector debt and a limitation on additional borrowing by public sector enterprises;

- recently committed itself to several structural adjustments including replacement of government sight bonds with fixed-maturity issues; replacement of current specific tariffs with ad valorem rates; establishing the legal basis for eventual sale of public enterprises; and creation of a special payments mechanism for Honduran exports within Central America.

We have on occasion agreed to policy adjustments which were less ambitious than our negotiating agenda and agreed to disbursements despite GOH problems in fully complying with one or more conditions of our assistance. In addition to economic stablization and recovery, other high-priority U.S. objectives with Honduras include security, social stability, and a political environment in which democratic institutions and processes may be progressively strengthened. At any given time, there may be trade-offs among these objectives which would require some relaxation of our economic conditionality. We must be particularly sensitive to the Hondurans' own assessment of the political feasibility of certain economic measures.

Over time, we seek progressive movement toward a macro-economic policy framework which is conducive to economic stabilization and recovery. The timing of this process is very closely linked to political realities in the recipient country.

Senator Leahy: What assurances do we have that in the reasonable future Honduras will move ahead with a comprehensive economic adjustment program?

Mr. McPherson: Having recently obligated $72.5 million in FY 1984 Supplemental ESF for balance of payments assistance and disbursed $55 million of this amount, we are now negotiating the basis for an additional $75 million in FY 1985 ESF. The Government of Honduras and U.S. representatives recently signed an agreement of general principles which calls for "a comprehensive program to correct fundamental restrictions on growth. Among these restrictions are the deficit in the balance of payments and the fiscal deficit."

We are working with Honduran officials to identify the economic adjustments which can be made at this time. Given upcoming presidential elections (November 1985), the final composition of the economic program will almost certainly be influenced by the pre-election climate in Honduras and U.S. interests in Honduran security, political stability, and democratic process. However, within this context we will continue to stress the importance of economic stabilization and recovery and push for policy measures that will help to gradually overcome major economic constraints.

Senator Leahy: What conditions will be attached to the $80 million in ESF for FY 86?

Mr. McPherson: We will not be in a position to outline the specific economic conditions for FY 86 until we have reached agreement on the FY 1985 program. However, we will continue to seek progress on the following objectives:

- adjustments within the foreign exchange regime to stimulate exports and reduce balance of payments deficits;

- reduction of fiscal deficits to restrain inflationary pressures;

- a lower and more uniform tariff structure;

- positive real interest rates to encourage domestic savings mobilization;

- simplification of government regulations and administrative procedures affecting investors and exporters;

- a reduced government role in economic production.

Senator Leahy: What specific purposes will the $80 million ESF grant for FY 86 be used for?

Mr. McPherson: The Economic Support Funds will continue to be used as balance of payments assistance to support the Government of Honduras' efforts towards economic stabilization and recovery. Our dollar assistance will enable the Government of Honduras to finance imports, raw materials, spare parts, and intermediate goods from the United States needed by Honduran productive sectors to increase production, employment, and export earnings.

Local currency associated with our dollar assistance will serve several purposes: industrial and agricultural credit; finance for high-priority development programs in health, education, housing, and rural development; and counterpart for projects assisted by other donors.

Senator Leahy: What has the Administration done to measure the future costs to the U.S. of Honduras' continued refusal to devalue its currency and participate in IMF?

Mr. McPherson: Honduras appears to face a serious problem of international competitiveness of its exports. The GOH has a variety of options for dealing with this problem, including exchange rate adjustment alone, monetary restraint alone, or a combination of the two. Consequently, no dollar amount can be identified conceptually as the cost of refusal to devalue. Similarly, devaluation is not a panacea for Honduras' economic problems.

Experience elsewhere tends to suggest that exchange rate adjustment, combined with control on credit creation, tends to restore competitiveness more quickly and less painfully than alternative approaches. Nevertheless, conditions differ in individual countries. Some possible approaches to increase export competitiveness without devaluation have been discussed within the Joint U.S.-Honduran Economic Working Group (JEWG).

The technical level of the JEWG has analyzed the possible impact on the Honduran economy of not implementing key policy reforms. The basic conclusion from this analysis is that Honduras will suffer a serious deterioration in economic performance in 1986 unless some steps are taken. This analysis further suggests that Honduras would need an additional $100 million of external financial assistance in FY 1986, above currently planned levels of U.S. assistance and inflows from other sources, to achieve acceptable GDP growth in the absence of major economic reforms.

Senator Leahy: How much more U.S. economic assistance will Honduras need before its economy is sufficiently stabilized?

Mr. McPherson: In conformity with the recommendations of the National Bipartisan Commission on Central America and the

President's Central American Initiative, we propose to provide large-scale assistance to Honduras over the full six-year period of the initiative. This assistance is directed towards economic stabilization and recovery, with achievement of an economic growth rate of six percent by the end of the decade. The effectiveness of this assistance will depend upon several variables, including policy actions taken by the GOH, price trends for Honduras' major export commodities, and the state of the world economy. Assuming favorable trends in the latter areas, the major requirement will be Government of Honduras (GOH) actions to establish a sound economic policy framework for stabilization and recovery which addresses the problems of an overvalued exchange rate and declining export competitiveness, stimulates private investment, and enhances the attractiveness of Honduras to foreign banks and investors.

We have projected that direct U.S. economic assistance levels of approximately $160-$170 million per year would be needed to achieve our stabilization, recovery, and growth objectives in Honduras. In addition, Honduras will also have access to U.S. assistance provided through regional mechanisms such as the Central American Bank for Economic Integration, the Trade Credit Insurance Program, the Central American Peace Scholarships Program, etc.

The GOH believes that increased U.S. assistance is required. We will periodically review our proposed assistance levels in relation to economic trends within the region, the needs of the Honduran economy, and GOH's own policy commitments.

Questions Submitted by Senator DeConcini

HEALTH ASSISTANCE

Senator DeConcini: Mr. McPherson, I am interested in your explanation of what has become of the Child Survival Fund. It was my understanding that it was created last year and, in effect, its funding at the $25 million level caused a net reduction in U.N.I.C.E.F. (United Nations International Childrens Emergency Fund) funding. Now you have said in your Congressional Presentation documents that you are doing away with the Child Survival Fund but that $25 million of the development assistance earmarked for health will be devoted to child survival programs.

1. What happened to the Child Survival Fund? It has always seemed to me to be important to have a clear separation of funding for the welfare of children throughout the world, just to make sure that a certain level of effort is maintained.

Mr. McPherson: First, I'd like to clarify that the U.S. contribution to UNICEF does not come out of the Development Assistance Health Account. Thus, our regular contribution to UNICEF and the $7.5 million extra funding we gave to UNICEF this year from the Child Survival Fund are not related.

In our FY 1986 Health Request we included $25 million for particularly effective and innovative child survival activities. This does not mean however, that only $25 million will be spent on activities aimed at the health problems of children under five. The health status of children and their mothers has been a priority direction for A.I.D.'s health program for several years. We will be spending health funds, in addition to the $25 million allocated for special child survival activities, on services and also on research to develop new and improve existing technologies critical to child survival.

MATCHING FOREIGN COMPETITION

Senator DeConcini: Mr. Holmes (Director of the Trade and Development Program), in your statement you mention that other nations have programs that are similar to our Trade and Development Program, yet they are more effective largely because they are much better funded.

If this is the case, is the fact that the Administration is reducing your funding by 5% indicative of an attitude of unwillingness to help our nation match the foreign competition?

Mr. Holmes: The Administration's request for the Trade and Development Program's (TDP) FY 1986 budget does not reflect an unwillingness to help our nation match the foreign competition but rather a recognition that the efforts of the Administration to reduce the Federal deficit must be of the highest priority, even to the detriment of programs which make a significant contribution to concerns of the business community. The Administration's proposal to cut the Trade and Development Program by only 5%, when other business-related programs have been asked to accept far deeper cuts, reflects the confidence and support it has in TDP and its efforts on behalf of the business community.

TRADE AND DEVELOPMENT PROGRAM INVOLVEMENT IN MINERAL PROJECTS

Senator DeConcini: The U.S. Trade and Development Program has been encouraged to facilitate access to strategic minerals of interest to the United States by assisting U.S. private sector investment in foreign mining projects.

Is there any effort to avoid investing in strategic minerals that are currently being mined in the U.S.?

Mr. Holmes: Yes. The Trade and Development Program's mineral activities are focused on the strategic metals manganese, chromium, cobalt, and the platinum group. None of these minerals is being mined directly in the United States, although some are produced as by-products. Our net estimated import reliance on these metals in 1984 varied from 82% to 99%.

Senator DeConcini: What were the five mineral projects that the Trade and Development Program was involved in in 1984?

Mr. Holmes: The five projects were as follows:

1. Recovery of cobalt from the pyrite rejects of the Marcona iron mine in Peru. The Trade and Development Program (TDP) co-financed a feasibility study which shows that 25% of United States cobalt requirements can be profitably provided by the Marcona operation. TDP has identified an Ohio firm which is interested in participation in a joint venture in this project; negotiations between the Ohio firm and the Marcona management are expected to commence shortly.

2. As a result of a TDP project identification mission on chromite to the Philippines last year, another Ohio-based company is forming a joint chromite venture to rehabilitate the chromite mine and mill of Trident Mining Company on the Island of Palawan.

3. A project identification mission on chromite to Turkey financed by TDP was followed by a TDP-hosted symposium in Washington. A U.S. firm is now further examining chromite deposits in Turkey.

4. A TDP financed project identification mission for manganese and other strategic minerals in Brazil undertaken last fiscal year will be followed in 1985 by a TDP hosted symposium in Washington. TDP has been informed of negotiations by a U.S. firm with Brazilians on a potential joint venture in manganese resulting from the TDP-Brazilian mission.

5. A TDP financed mission to Mexico to check out possibilities for a joint venture with a U.S. mining firm and Compania Minera Autlan on their billion and a half ton manganese carbonate property has resulted in negotiations with a U.S. firm.

FINANCIAL DEPENDENCY OF PRIVATE AND VOLUNTARY ORGANIZATIONS (PVO)

Senator De Concini: In your Congressional Presentation regarding Private and Voluntary Organizations you state that one of the objectives of the A.I.D. PVO program is to discourage undue dependence on U.S. Government financing of the international development programs of PVOs by introducing requirements for non-U.S. government cash funding in grant relationships.

Can you go into some detail about the measures to be taken to achieve this objective, particularly by defining the term "undue dependence"?

How many PVOs currently working with A.I.D. would this effect?

Mr. McPherson: The Agency for International Development (A.I.D.) is taking several measures to ensure Private and Voluntary Organizations (PVO) remain financially independent of A.I.D. First, pursuant to the Congressional mandate, A.I.D. requires that a U.S. PVO seeking A.I.D. PVO grant funding receive at least 20% of its total annual cash support for its international activities from non-U.S.G. sources. As a further step, each grant requires a non-A.I.D. contribution. The percentage requirements vary, from 25% of total project costs (including PVO in-kind contributions) to a 50% or dollar-for-dollar cash match under our matching grant program.

Currently some 20-25 PVOs are affected by the 20% eligibility requirement. Approximately 75 PVOs are affected by the non-A.I.D. contributions requirement in grant agreements, with approximately 30 receiving grants having a 50% cash cost-sharing requirement.

A.I.D. recently completed a study, requested by Members of Congress, on the nature and extent of PVO financial reliance on the U.S.G. One major conclusion of this report is that PVO "dependency" is a complex matter, owing both to the heterogeneity of the PVO community and the multiple forms of dependency (e.g., for financial support, for policy direction, etc.). Financial dependency is the most easy to determine, although not an infallible measure of "dependency." Nonetheless, A.I.D. policies are directed at financial dependency and are intended to ensure that (1) PVOs remain financially independent of A.I.D. and (2) the group of 20-25 PVOs which have historically shown a high degree of reliance on the U.S.G. for their funding broaden their private resource base.

HEALTH ASSISTANCE

Senator DeConcini: If you subtract $25 million (the amount that is to be devoted to children) from the $146, 427,000 for the A.I.D. health function, the result is $121,427,000, a reduction from last year's request of almost $37 million. If you also consider the differences in the appropriated amount of the health function versus this year's request level plus the difference between last year's appropriations for Population Planning from this year's request, A.I.D. health programs are taking a $140 million cut from last year's appropriations level.

Can you explain to me how our health programs throughout the world can be maintained after taking such a significant cut?

Mr. McPherson: We believe that the Administration request of $146,427,000 (including $25 million for child survival activities) for FY 1986 and of $250,017 for Population Planning are appropriate requests in light of overall budgetary stringencies and other high priority areas of effort.

In FY 1985 Congress provided A.I.D. with $50 million in additional health funds to be used for primary health care, $25 million for child survival activities, $10 million for nutrition programs and an additional $15 million for Africa. We have programmed the additional health funds for new and expanded child survival activities through PVOs, and bilateral programs. These new activities will be developed and funded this year, but will in many cases last several years. These programs take some time to get off the ground, and we are being very careful to select and develop those that will have a real impact on child survival.

I believe that the momentum which we have gained this year will carry over through the next year or so with the funding level we have in FY 1985 and that which we have requested in FY 1986. A.I.D.'s recent health policy emphasized selective primary health care aimed at improving the health of mothers and children under age 5 and much of our health assistance is aimed at this group. The increased funding made available this year has made possible much increased activity in areas already identified as priorities of this Administration. However, the absorptive capacity of both governments and PVOs is not unlimited, and we want to be sure that the programs we start are effective and sustainable.

The Administration's FY 1986 request for Population Planning funds has been straightlined from our FY 1985 request of about $250 million, a level which we consider to be consistent with all the demands on the development assistance budget.

Traditionally, there has been high support for health activities with Economic Support Funds (ESF). In FY 1986 we estimate that ESF for health and related water and sanitation activities will be approximately $220 million.

QUESTIONS SUBMITTED BY SENATOR DENTON

EFFECTIVE AID REGULATIONS ON PROVIDERS OF FAMILY PLANNING

Senator Denton: For more than two years many individuals and organizations have protested, and asked you to change, AID's regulations which discriminate against providers of natural family planning. Under your regulations all applicants for family planning grants must agree, by contract, to provide a broad range of contraceptives and referrals. The effect of this regulation is to exclude most NFP groups, which have religious objections to other forms of contraception.

Your General Counsel, Richard Derham has reportedly admitted that this regulation has no basis in law. There is no legislation whatsoever that requires each and every grantee to provide a range of contraceptive techniques. It purely a regulatory decision by the Agency.

Why has that regulation not been altered, two years after this was first brought to your attention?

I do not want a list of all the NFP grants you have made to one or another group. I would like an explanation of why the discriminatory regulation has not been changed.

Mr. McPherson: First, let me outline the rationale for our policy on referral. Legislation requires that our programs be voluntary. By this we include voluntary acceptance of family planning and informed and voluntary choice of method. .

In order to have an informed choice, AID believes that couples must have information on and access to as wide a range of medically, legally and culturally acceptable methods as possible (excluding abortion), including NFP. Where organizations provide only one method, we require family planning service organizations either to counsel clients on a variety of family planning methods or to refer them to other organizations which counsel and/or provide other methods.

Application of this policy has served the interests of NFP by requiring organizations that provide counseling and services primarily about other methods to include information regarding NFP or to make referrals for such information. We have carefully reviewed our policy in relation to referral and we believe it is very important to maintain this policy.

In many countries, a major source of NFP rests in organizations that do not provide other forms of family planning, including information on these methods. In order to facilitate participation of such NFP providers in the AID family planning program, AID has accepted the following referral procedures in satisfaction of the Agency's policy requirement. These procedures have already been adopted by some NFP organizations.

-- For clients who come to the NFP agency, such an agency will make it clear at the outset that it provides only NFP information and services.

-- The clients seen by the NFP agency who express a desire for information about or a wish to use other family planning services will be referred to the appropriate health or family planning services for specific recommendations. No other information need be provided.

The Agency feels that the above clarification of its basic policy guidelines is in the best interest of couples desiring family planning services and represents appropriate guidelines for NFP only organizations.

In practice, our policy has not prevented our funding of many NFP groups. In fact, funding for NPF has increased during my administration of this Agency from less than several hundred thousand dollars per year to an estimated $8 million in fiscal year 1985.

AID REFERRAL POLICY

Senator Denton: If AID intends to maintain its regulation requiring all family planning grantees to provide a broad range of contraceptive services, please explain the specific provisions of current law under which you consider that regulation to be required?

Mr. McPherson: AID has no plans to change its referral procedures. However, AID has tried to adopt a liberal policy with regard to NFP-only organizations. AID minimally requires that NFP programs state, at the outset, that they provide only NFP. If a client asks for another method, the NFP organization simply has to say that such methods are not offered by them but that they can be obtained elsewhere.

The legislative history of section 104 of the Foreign Assistance Act and predecessor legislation requires a voluntary family planning program and calls for informed choice and the availability of a wide range of methods. This provides the basis for the Agency's policy.

"UMBRELLA ORGANIZATION" REVIEW OF NFP PROPOSALS

Senator Denton: Is it true that AID plans to set up a single external "umbrella organization" to review and pass judgment on all NFP grant proposals?

Mr. McPherson: The Agency plans to release a Request for Applications (RFA) this year on natural family planning (NFP). This competitive selection is designed to enable the Agency to respond effectively and efficiently to the increasing interest in NFP through a five year, $20 million project. The project will have three main elements: research (biomedical, operations, and social science); information, education and training (IEC); and, technical assistance. Although this will not be the only mechanism through which the Agency will support NFP activities, it will allow AID to maintain its leadership as the principal, worldwide source of support for NFP. The Agency simply does not have the staff to handle an effort of this magnitude without an "umbrella" mechanism.

AID has found that such "umbrella" projects are a cost-effective way to deal with similar staff-intensive areas in its population and other programs when such programs reach a certain level of maturity.

NECESSITY OF EXTERNAL REVIEW

Senator Denton: Why is such an external review group necessary?

Mr. McPherson: Among several features of this "umbrella" project will be a peer group review of proposals solicited by the project and for unsolicited proposals they might receive. The new project will provide a mechanism for supporting an independent review by leading experts in NFP and related research and/or programmatic fields. This rigorous review will assure that the Agency supports only high quality, timely activities and is necessitated by the in-house staff limitations noted earlier. As with all its funding actions, AID will retain final approval rights which, among other things, ensures Embassy/Mission and host country government approvals of the proposed activity.

POTENTIAL PARTICIPATION OF MR. POTTS

Senator Denton: Will Mr. Malcolm Potts be a part of that unbrella group?

Mr. McPherson: Concerning the potential participation of Dr. Malcolm Potts in this new activity, there is no way to predict any individual's potential role in the project at this juncture. The RFA has not been issued and, as a result, no proposals have been received for review.

NFP GRANT MONEY TO MR. POTTS

Senator Denton: Has AID ever given any NFP grant money to Mr. Potts?

Mr. McPherson: Dr. Potts is the Director of Family Health International (FHI) which is a recipient of AID funds. Reflecting the intention of Congress, all our population projects have been encouraged to increase their levels of NFP activities. FHI has been responsive in this regard. FHI established an NFP and Breastfeeding Department under the direction of a well-respected social scientist from Harvard University. The overall strategy and activities of this Department are monitored by an NFP Advisory Committee, which includes world-renowned NFP experts from such well-established organizations as the International Federation for Family Life Promotion, the World Organization of the Ovulation Method (Billings), the Fundacion Carvajal (Colombia), and SERENA (Canada).

AFRICAN DROUGHT: PVO ACCOUNTABILITY TO U.S. CONTRIBUTORS

Senator Denton: We consistently hear rumors that much of the funds that are being raised by private voluntary organizations (PVOs) are going towards long-range development programs in countries like Angola, Mozambique, and Ethiopia, rather than for short-term emergency programs as advertised. To what extent do you know or are you aware that this is happening?

As a Senator from Alabama, I believe that this is a reasonable question because many of my constituents are contributing to private African relief efforts in the belief that they are helping to alleviate the immediate food crisis.

Does A.I.D. know where private voluntary organization dollars are going and do you have any mechanism for finding out?

Mr. McPherson: We believe that the U.S Private and Voluntary Organizations (PVOs) that are receiving funds from the U.S. public for the African relief efforts are making every effort to be responsive to the U.S. public's need for accountability. Most of these organizations have a long history that precedes the Agency for International Development (A.I.D.) in responding to emergency needs worldwide. They know the importance of reporting to their contributors on how their cash and material donations have been used to provide assistance.

We have been obtaining reports from InterAction, the association of U.S. PVOs, on the fund raising results of its 29 U.S. PVO members most directly engaged in the assistance efforts in Africa. They report that to date over 110 million dollars has been generously contributed to these members and that the PVOs are using these funds to provide relief, rehabilitation, and recovery assistance to meet the most immediate crisis needs.

We have proposed a program whereby we would assist InterAction to establish a Disaster Response Unit which would give them the capability to provide us with regular information reports on the activities of its 29 U.S. PVO members providing assistance in Africa. The reports would include details regarding the dollar value of private and U.S. Government aid and descriptions of the kinds of material assistance they are providing in-country.

In addition, a small committee of PVOs has been convened under the auspices of InterAction that will address the importance of public accountability and will draft a Code of Ethics in Fundraising for their members.

As the Congress knows, we are working closely with a number of the U.S. PVOs to channel the U.S. assistance and we have asked those PVOs submitting proposals to us for funding under the African Emergency to provide us with financial data that will also indicate the costs of their ongoing project activities in the African drought-stricken countries since October.

We are not aware that funds raised for the short-term emergency are being diverted to any other purpose. Based on the reports of the U.S. PVOs involved in the Africa effort and the significant public and private attention focused on the African famine victims, we believe that the U.S. PVO community efforts in the field are being responsive to U.S. contributors.

SUBCOMMITTEE RECESS

Senator KASTEN. We thank you very much for your help. We look forward to working with you.

We will stand in recess until Thursday, April 4, 1984, at which time we will receive testimony from the Honorable James A. Baker, Secretary of the Treasury.

[Whereupon, at 3:35 p.m., Tuesday, April 2, the subcommittee was recessed, to reconvene at 10 a.m., Thursday, April 4, 1985.]

FOREIGN ASSISTANCE AND RELATED PROGRAMS APPROPRIATIONS FOR FISCAL YEAR 1986

THURSDAY, APRIL 4, 1985

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:05 a.m., in room SD–192, Dirksen Senate Office Building, Hon. Robert W. Kasten, Jr. (chairman) presiding.

Present: Senators Kasten, Specter, and DeConcini.

DEPARTMENT OF THE TREASURY

STATEMENT OF THE HONORABLE JAMES A. BAKER, SECRETARY OF THE TREASURY

OPENING STATEMENT OF SENATOR KASTEN

Senator KASTEN. The subcommittee will come to order.

This morning, the subcommittee will receive testimony from the Honorable James A. Baker, Secretary of the Treasury, in support of the budget requests for the multilateral development banks.

Secretary Baker, we are happy to have you appear before us today. This is your first appearance before the subcommittee, and we warmly welcome you. We look forward to working with you. I know that I speak for all the members of the subcommittee by saying that we look forward to a fruitful relationship with you, and you should know that we will endeavor to be helpful to you and the administration as you work some very important, and sometimes very controversial, issues with respect to multilateral development banks.

As you know, Mr. Secretary, your entire statement will be inserted in the record, and we ask that you summarize the statement for us, and then we will have some questions for you.

BUDGET FOR MULTILATERAL DEVELOPMENT BANKS

Secretary BAKER. Thank you, Mr. Chairman. It is a pleasure to meet with you today to discuss the budget proposal for the multilateral development banks [MDB's]. First, I should say that the administration firmly supports the MDB's and their vital role in providing technical and financial assistance to developing countries.

In this regard, Mr. Chairman, let me say how appreciative we are to you for the key role that you and the members of your committee played last year in securing congressional approval for the seventh replenishment of IDA and the newly created Inter-American Investment Corporation.

I want to stress that the basis for our policy will continue to be the 1982 assessment of the MDB's that you, Mr. Chairman, and this committee helped to shape. As you recall, the assessment concluded that the MDB's had been most useful to the United States by contributing to the achievement of our global economic and financial objectives, and also in helping us to advance our own political and strategic interests. This is more true today that it was even in 1982.

AREAS OF MDB SUCCESS

In Latin America, Asia, and Sub-Saharan Africa, the MDB's are playing an important role in furthering developing country growth and stability.

Much has been accomplished toward achieving the specific objectives of the assessment, to hold down the budgetary impact of the MDB's, and to promote better quality loans. In the past, members of this committee have supported the administration's efforts to scrutinize the budgetary effects of the MDB programs consistent with the U.S. interests and the realities of our domestic budget environment. In fact, our current fiscal year 1986 budget request for paid-in capital and concessional funding is 8.8 percent less than was provided in fiscal year 1980. In addition, we have also achieved better quality loans.

STRENGTHENING MDB LENDING POLICY

An example of our success in strengthening the MDB lending policy is a change in World Bank project lending for oil and gas projects. Early in this administration, we successfully opposed the creation of a special World Bank Energy Affiliate because we believed it to be unnecessary. In addition, we have opposed a number of loans to the oil and gas sector because we believe the World Bank was displacing private capital which is available for this purpose.

Our concerns did not go unnoticed. Recently, the World Bank issued new operating guidelines that will significantly improve their lending in this sector.

ENVIRONMENTAL IMPACT OF MDB

I am well aware, Mr. Chairman, of your deep concern about the impact of MDB projects on the environment, particularly regarding some MDB projects in Brazil. I happen to share these concerns. Your public expression's are very useful in focusing attention on this issue.

Treasury has undertaken the policy of bringing questionable projects to the attention of senior members of the various MDB's. Further, we welcome hearing from you regarding the adverse environmental impact of any MDB projects that might come to your attention.

FISCAL 1985 SUPPLEMENTAL REQUEST

Let me close with just a few words about the administration's fiscal year 1985 supplemental request which reflects our determination to honor existing international commitments to these institutions. On the basis of our extensive consultations with the Congress, including this committee, we entered into levels of commitment that we believed the United States would honor. Nevertheless, we now find ourselves delinquent in these obligations.

It is important that this committee realize the very difficult situation facing these institutions as a result of our failure to provide these funds. Due to cost sharing arrangements agreed to by the member countries, the Asian Development Fund lending program is currently short a total of about $250 million due to our shortfall of $91 million, and the IDB's fund for special operations has a shortfall of $175 million resulting from our failure to provide $72.5 million.

UNFUNDED COMMITMENTS

Of greater concern is the fact that the IDB hard window lending program has essentially stopped because of our unfunded commitments.

I believe that the continued shortfalls can cause serious damage to our relations with other member countries, the institutions themselves, and more importantly have a negative impact on the people of the developing countries who are the beneficiaries of these institutions.

I also believe that it is totally unbecoming and unreasonable for the world's most powerful nation to refuse to honor commitments made in good faith, and after full consultation between the Executive and the Legislative Branches of government.

In conclusion, Mr. Chairman, I want to emphasize this administration's commitment and full support for the MDB's and our desire to work with you and your committee to meet our commitments to these institutions.

Thank you very much.

[The prepared statement of Secretary Baker follows:]

PREPARED STATEMENT OF HON. JAMES A. BAKER, III

SECRETARY OF THE TREASURY

Mr. Chairman and members of the committee:

It is a pleasure to meet with you today to discuss the policies we are pursuing with the Multilateral Development Banks (MDBs); the President's budget proposals for the MDBs; and the compelling need for this Committee to support the replenishments recently negotiated which reflect full consultation with the Congress, and in particular, this Committee.

The Administration firmly supports the MDBs and their vital role in preserving and enlarging the international economy by providing technical and financial assistance to developing countries. Mr. Chairman, I agree with your remarks to Secretary of State Shultz two weeks ago: the United States has a long-term self-interest in nurturing these institutions.

You and the members of your committee played a key role in securing Congressional approval for the Seventh Replenishment of the International Development Association (IDA VII) and the newly created Inter-American Investment Corporation (IIC). The Administration deeply appreciates your invaluable help in implementing the President's program.

Successful United States leadership in these institutions depends on firm backing by the Congress for international commitments -- commitments made on the basis of extensive congressional consultations. The President -- indeed, our country -- stands behind those commitments. Having played a part in the preparations for these negotiations, you now bear responsibility for following through on these replenishment commitments so that the MDBs may more fully serve the people for whom they were created.

The basis for our participation and policy direction will continue to be the 1982 Treasury assessment of the MDBs which this Committee helped to shape. As you will recall, the assessment concluded that the MDBs have been most useful to the United States by contributing to the achievement of our global economic and financial objectives, and also helping us to advance our long term political and strategic interests. This is more true today than in 1982. The situation in Sub-Saharan Africa, for instance, has steadily deteriorated since 1982. There is a need for major programs of policy reform and on getting better value from both internal and external resources. The economies of Latin America are striving to get back on their feet from the debt crisis that struck in 1982. In both these geographic regions, as well as Asia, the MDBs are playing an important role in enhancing developing country growth and stability:

-- as catalysts for mobilizing private sector resources;

-- as sources of sound economic policy advice and technical assistance; and

-- as providers of inputs that the private sector would not or could not provide.

The Administration's specific objectives, also in keeping with the assessment, are to hold down the budgetary impact of the MDBs, promote better quality loans, and enhance the role of the private sector. We want to stop the practice of viewing the quantity of lending as a mark of success in these institutions by refocusing our attention to the issue of the quality of MDB lending.

Reducing Budgetary Impact of the MDBs

As a fiscal year 1985 supplemental we are requesting $236.7 million in budget authority and $1,219.0 million for callable capital, which as you know, is provided in the form of program limitations. The fiscal year 1986 request is for $1,347.6 million in budget authority and $3,641.7 million for callable capital.

In the past, members of this committee have supported the Administration in its efforts to scrutinize the budgetary effects of the MDB programs consistent with U.S. interests and the realities of our domestic budget environment.

In fact, our current fiscal year 1986 budget request for paid-in capital and concessional funding is $130.5 million or 8.8 percent less than was provided in fiscal year 1980. Since taking office this Administration has negotiated replenishments that have reduced the proportion of paid-in capital for subscriptions to the hard-loan windows of the MDBs. In the Inter-American Development Bank (IDB), paid-in capital is now 4.5 percent of the total, down from 7.5 percent in the previous capital increase. In the Asian Development Bank (ADB), paid-in capital dropped from 10 to 5 percent. The IBRD dropped the amount of paid-in capital from 10 to 7.5 percent. Because of their greater budgetary impact, the reduction in the budget request has come from a decrease in the MDBs' soft loan programs; these programs have been reduced some $570 million, or 40.5 percent in real terms, in our FY 1986 request compared to the FY 1981 programmed levels. The current experience of the MDB soft windows in processing loan commitments indicates that the replenishments the Administration negotiated were adequate, including the three-year $750 million per year IDA VII replenishment. However, even after the reductions that have taken place the programs remain sufficiently substantial to fulfill their objectives.

I would like to take a few minutes to address the single largest component of our budget request for the MDBs--the International Development Association (IDA). We are pleased that the World Bank has moved swiftly to strenghthen the administration and management of its African operations with the object of supporting policy reform efforts in this region. IDA, with its enhanced efforts to increase effectiveness of its lending to Sub-Saharan Africa, will be focusing its program on the need for appropriate policies that are essential to achieve self-sustaining growth. The share of IDA's resources going to Sub-Saharan Africa has increased from an average of 27.5 percent in 1980 through 1982 to 35.2 percent in the subsequent years.

This Committee has been most outspoken on the subject of India borrowing from IDA. India had been receiving a full 40 percent of all IDA credits. India's share dropped to 28.0 percent by fiscal year 1984 and is expected to decline further during IDA VII.

Because of the scope and effectiveness of its lending operations IDA is the single most important multilateral development institution for the World's poorest countries, many of which are in Sub-Saharan Africa. The Administration -- after extensive consultation with this Committee -- made a commitment to the institution and the developing countries to contribute $750 million in FY 1986. We must honor this commitment, along with the other commitments that have been made to the MDBs in consultation with Congress.

Consistency with Bilateral Assistance

We sometimes hear the argument that bilateral assistance is a better vehicle for advancing U.S. foreign policy interests in developing countries. We believe the programs are interrelated and that both are effective channels for assisting developing countries. U.S. financial support of the MDBs is matched by substantial amounts from other donor countries and private capital markets; U.S. bilateral programs engender close cooperation that enhance our national interest and increase political, economic, and military stability in the third world.

The Committee may find of interest that out of 37 countries that received allocations in 1984 from the State Department's Economic Support Fund (ESF), the MDBs lent to 32 of them. Another three -- Israel, Italy, and Spain -- have per capita GNPs too high to qualify as MDB borrowers. Among these 32 countries receiving MDB assistance, the United States provided $6.7 billion in foreign aid in 1984, while the MDBs provided $4.9 billion to these same countries -- at a cost to the United States of approximately $1.3 billion because of the unique cost sharing features of these institutions. In short, the MDBs are cost effective in assisting countries of particular importance to the United States.

Improved Loan Quality

We have also achieved better quality loans. This is evidenced in several areas. First, we have had success in the MDBs with our efforts to strengthen the quality of loans. Occasionally this may require the United States to oppose a loan based on an assessment of the economic viability of the project.

I think it is fair to say that there has been some improvement in the overall quality of MDB lending as a result of our continuing emphasis on this subject. We have been particularly concerned about MDB lending for projects which are likely to achieve high financial rates of return, and which could be undertaken by the private sector or with commercial finance.

An example of our success in strengthening MDB lending policy is the change in World Bank project lending for oil and gas projects. Early in this Administration we successfully opposed the creation of a special World Bank Energy Affiliate because we believed it to be unnecessary. In addition, we have opposed a number of loans in this sector because we believed the World Bank was displacing private capital available for this purpose. Our concerns did not go unnoticed. Recently the World Bank issued new operating guidelines that should significantly improve the quality of their lending in this sector.

Another example of improved loan quality is the continuing priority given to economic policy adjustment issues in the face of declining loan demand. The World Bank's lending in its current fiscal year is now projected at $11 billion -- roughly $2 billion less than the IBRD anticipated. We fully support the World Bank's recently increased emphasis on maintaining lending standards rather than pursuing aggregate lending targets.

A final illustration of improved loan quality concerns public utility tariffs at the Inter-American Development Bank (IDB), where we were successful in attaining a significant policy change. With this policy in place the IDB can only now make loans to public utilities that have a rate structure which enables the utility to meet full operating and maintenance costs. This policy will result in a reduction in government budget subsidies for those countries receiving loans in these sectors.

Environmental Impact of MDB Projects

An area where we are now trying to influence MDB policy to be more constructive is the impact of MDB projects on the environment. I am well aware, Mr. Chairman, of your deep concern on this issue, particularly regarding some MDB projects in Brazil. I share your concerns. Your public expressions have very usefully focused attention on this issue. Our own examination of MDB projects indicates a mixed performance by the Banks in adhering to their own, current standards regarding environmental safeguards on the design and implementation of their projects. There have been some very well designed projects; there has also been a number of environmentally questionable projects.

To address this situation Treasury is undertaking a policy of bringing questionable projects to the attention of senior Management of the various MDBs. The impact of accumulating evidence will bring home the conclusion that policy implementation has to be strengthened.

As we all become more aware of the environmental impact of MDB projects -- donors, recipients, and the institutions themselves -- we will have to become more careful in analyzing this factor.

In the meantime, Mr. Chairman, the U.S. Treasury welcomes hearing from you and other members of your Committee regarding the adverse environmental impact of any MDB projects that might come to your attention.

Support for the Private Sector

We also have as a general goal to increase MDB support for the private sector.

Your Committee, Mr. Chairman, has already contributed much toward support for the private sector by lending a firm hand in enacting legislation to enable U.S. participation in the Inter-American Investment Corporation (IIC).

Most IDB members have joined together to create the IIC which will be linked with the IDB. The IIC will focus on strengthening the capitalization of small- to medium-sized firms in Latin America and the Caribbean by providing equity participations and loans.

Other MDBs have also taken some positive steps in this direction. As I will mention in more detail later, the International Finance Corporation (IFC) is about to embark on a five-year plan to boost their support for the private sector. About two years ago the ADB began equity operations on a small scale. In addition, the ADB recently held a seminar on "privatizing" -- i.e., having the private sector perform certain functions now performed by the public sector, often through state-owned enterprises (SOEs). We are looking forward to reviewing the seminar's final results, and for ADB management to carry them forward in a policy paper.

We are carefully examining the MDBs' past practices in lending to state-owned enterprises, particularly to ascertain the extent of private sector alternatives. We do so because we believe State-owned enterprises are frequently plagued by management deficiencies, and political pressures to sustain artificial levels of employment and subsidized prices. Therefore, it is imperative to strengthen the private sector in these economies. Our thinking on this matter is still in its early stages, and your ideas on this subject are most welcome.

U.S. Unfunded Replenishment Commitments

The Administration's FY 1985 Supplemental Request reflects our determination to honor United States' commitments to the institutions, the other donor countries, and most importantly, to the people of the developing countries themselves -- commitments for the most part negotiated by this Administration.

I believe our unfunded replenishment commitments are truly creating a very difficult situation for MDB lending programs. Currently, the United States' funding shortfall of $91 million in the Asian Development Fund (ADF) has, because of a cost sharing mechanism, led to total reductions of about $250 million. Without our requested funds, the ADF will be forced to make contingent loan commitments, which prevents the institution from finalizing their loan agreements.

The Inter-American Development Bank (IDB) is in a worse situation. Because charter provisions grant the United States 34.5 percent of the IDB voting power, the Bank cannot accept subscriptions from others that would push us below this level. Based on this 34.5 percent criterion, the current U.S. shortfall in subscriptions of $40 million paid-in capital and $849 million in callable capital compels the IDB to refuse to accept subscriptions from other members of more than $1.67 billion. This has forced the IDB to stop its regular lending and only make contingent commitments until we provide our subscription shortfall.

The last replenishment of the IDB's soft loan window, the Fund for Special Operations (FSO), also contains a cost sharing mechanism. Our shortfall of $72.5 million has resulted in a total shortfall of around $175 million. The unfunded commitments to the World Bank's General Capital Increase (GCI) has temporarily pushed our voting power to below 20 percent. The first installment for the Inter-American Investment Corporation (IIC) remains incomplete and detracts from our efforts to urge others to join up.

I strongly believe that consistent shortfalls can cause serious damage to our relations with other member countries, the institutions themselves, and more importantly, have a negative impact on the people of the developing countries who are the beneficiaries of these institutions. On the basis of our extensive consultations with the Congress, including this Committee, we entered into commitments we believed the United States would be able to honor. We now find ourselves unable to fulfill the obligations we agreed to. Frankly, this is not good government, and, does not speak well for the United States.

The Fiscal Year 1985 and 1986 Budget Request

With the exception of a small number of capital shares in the World Bank dating back to 1970 which the United States did not purchase, and capital shares for the IBRD's 1981 General Capital Increase (GCI), the entire MDB fiscal year 1986 request comprises replenishment agreements negotiated by this Administration in close consultation with this Committee.

Treasury officials kept in close touch with the Committee and these funding proposals reflect both the need for budgetary restraint and the financial requirements for effective development programs. We are requesting $236.7 million in budget authority and $1,219.0 million under program limitations for callable capital subscriptions as a fiscal year 1985 supplemental. The fiscal year 1986 request is for $1,347.6 million in budget authority and $3,641.7 million under program limitations for callable capital.

Many of the countries in Sub-Saharan Africa are in serious economic difficulty. It is worth noting, therefore, that many of the programs included in this request are oriented toward this region. An increased share of IDA resources go to Sub-Saharan Africa; the African Development Bank and Fund are devoted entirely to promoting the region's development; and the International Finance Corporation's new five-year plan features increased emphasis on the region.

International Bank for Reconstruction and Development (IBRD)

For the IBRD, the Administration is seeking a fiscal year 1985 supplemental request of $30.0 million in budget authority for paid-in capital and $370.0 million under program limitations for callable capital to complete the fourth of six installments for the U.S. share of the 1981 GCI of the Bank. For fiscal year 1986, the Administration is requesting: 1) $109.7 million in budget authority and $1,353.2 million under program limitations for subscriptions to the fifth installment of the 1981 GCI; 2) $65.7 million in budget authority and $685.3 million under program limitations for subscriptions to the first of two installments to the IBRD's 1984 Selective Capital Increase (SCI); and 3) $7.4 million for paid-in capital subscriptions and $66.9 million in program limitation for callable capital subscriptions to the 1970 SCI.

The 1984 SCI totals $8.4 billion and was unanimously approved by the IBRD Executive Board in May 1984. This SCI adjusts members' relative shares to reflect their relative position in the world economy. U.S. participation is an important demonstration of U.S. support for the World Bank and our willingness to work cooperatively with other donor countries to strengthen the World Bank's financial position and ensure improved cost-sharing.

The Administration continues to believe that the IBRD should play a prominent role in the longer-term development programs of its borrowers and regards "equitable cost-sharing" among donors to be a key element of our participation in all of the MDBs. An important consideration for the United States in negotiating the SCI was the general understanding to maintain a conservative interpretation of the IBRD's "sustainable level of lending" (SLL).

Subscription to all IBRD shares -- the GCI and both SCIs -- is essential in order to maintain the U.S. veto over amendments to the Articles of Agreement of the Bank.

International Development Association (IDA)

For fiscal year 1986, the Administration is requesting $750 million for the second of three installments for the $2.25 billion U.S. share of the $9 billion seventh replenishment. We are pleased at the speed with which the World Bank has moved, with full support of the Executive Board, to strengthen the administration and management of its African operations, with the object of supporting policy reform efforts in this region. We continue to believe the countries of Sub-Saharan Africa and other least developed countries should have first claim on available IDA resources as long as these countries are able to make effective use of these resources.

International Finance Corporation (IFC)

For fiscal year 1986, the Administration is seeking $35.0 million for the first of five installments on the U.S. subscription to a $650 million IFC capital increase unanimously approved by the IFC Executive Board in June, 1984.

This capital increase is needed to support an IFC five-year plan for the period FY 1985-1989 that features four initiatives:

1) increased emphasis on capital market development to build the institutions necessary to mobilize capital;

2) implementation of a corporate restructuring program to assist enterprises adapt to changing economic conditions brought about by adjustment programs and adverse or changing market conditions;

3) allocation of a larger share of IFC's resources to Sub-Saharan Africa for a program which contains four main components:

   - provide investment analysis and advisory services through expanded venture capital companies;

   - take a larger investment share where it proves difficult to mobilize resources for otherwise worthwhile projects;

   - more and smaller projects to take advantage of the region's relatively larger number of smaller scale investments; and

   - more intensive use of development finance corporations.

4) establishment of an energy exploration and development program that will attract foreign private resources to developing countries.

This investment program is consistent with the direction and emphasis the United States has encouraged the IFC to take.

Inter-American Development Bank (IDB)

In a supplemental request for fiscal year 1985, the Administration is seeking $40.0 million in budget authority and $849.0 million under program limitations for subscriptions to complete the second of four installments to the 1983 capital increase of the IDB. For fiscal year 1986, the Administration is requesting $58.0 million in budget authority and $1,231.0 million under program limitations for the third installment. The lending program based on the 1983 capital increase is designed to continue strong support for the long term development of the countries in Latin America and the Caribbean.

Fund for Special Operations (FSO)

In a supplemental request for fiscal year 1985, the Administration is seeking $72.5 million for the second of four installments for the 1983 replenishment. For fiscal year 1986, the Administration is requesting $72.5 million for the third installment.

The FSO replenishment is designed to address the long term development needs of the poorest countries, primarily in Central America and the Caribbean. As a result of U.S. unfunded commitments to the FSO, other countries are also holding back on their payments.

Inter-American Investment Corporation (IIC)

In a supplemental request for fiscal year 1985, the Administration is seeking $3 million to complete the first of four installments for the initial U.S. subscription to the IIC. For fiscal year 1986, the Administration is seeking $13 million for the second installment.

The Administration strongly supported establishing the IIC as a practical means of enhancing the capacity of the IDB to aid the private sector in borrowing countries. The investment program will provide loans and equity participation for small- to medium-sized privately controlled firms in Latin America and the Caribbean.

Asian Development Bank (ADB)

For fiscal year 1986, the Administration is seeking $13.2 million in budget authority and $251.4 million under program limitations for the third of five installments for the 1983 General Capital Increase.

The ADB is a key institution in one of the most economically dynamic and politically sensitive regions of the world. Active and positive U.S. participation has served U.S. interests.

Asian Development Fund (ADF)

In a supplemental request for fiscal year 1985, the Administration is seeking $28.2 million to complete U.S. contributions to the first replenishment and $63 million to complete the second of four installments to the third replenishment. For fiscal year 1986, the Administration is requesting $130 million for the third installment to the third replenishment.

The ADF has supported well designed and effective development projects in some of the poorest countries in the world. U.S. support benefits the people of such countries as Pakistan and Sri Lanka as well as many of the strategic island countries in the Southern Pacific.

African Development Bank (AFDB)

For fiscal year 1986, the Administration is requesting $18.0 million in budget authority for subscriptions to paid-in capital and $54.0 million under program limitations for callable capital for the fourth of five installments for the initial U.S. subscription to the AFDB.

The AFDB is visible evidence of U.S. commitment to work with the countries of Africa for the achievement of their long term development objectives.

African Development Fund (AFDF)

For fiscal year 1986, the Administration is seeking $75 million in budget authority for the first of three installments for the U.S. contribution to the fourth replenishment.

During the period of the fourth replenishment, 85 percent of AFDF lending will go to the poorest African countries. Fund lending will continue to be focused on agriculture with 40 percent of the replenishment resources going to this sector. The remainder of AFDF lending will go to high priority projects for transportation, health, education and water supply.

The substantial increase in the U.S. contribution to the AFDF is a reflection of the Administration's belief that concessional development assistance should be focused on the poorest countries, particularly those of Sub-Saharan Africa.

Upcoming Replenishment Negotiations

It may be useful to briefly comment on upcoming replenishment negotiations. In light of the current severe fiscal pressures, the Administration has not budgeted at this time for all future replenishments. Because of the budget stringency all current programs -- domestic and international -- are being thoroughly scrutinized for possible budgetary cuts. In this context we decided to defer any decisions on future participation until later in the year.

The replenishment negotiations that will begin this year are for the ADF, IDB/FSO and AFDB. Negotiations for IDA VIII will commence in late 1985 or early 1986 and should be completed in time for IDA to begin making commitments in July 1987. We plan to consult with this Committee, as well as others, to inform you about these upcoming replenishment negotiations in more detail.

Conclusion

In conclusion, Mr. Chairman, I want to emphasize this Administration's commitment and full support for the MDBs. In this context, I reiterate the importance of the supplemental request for contributions and subscriptions that we have requested previously, and to urge your full support for the entire FY 1986 budget request.

The supplemental request is, for the most part, to complete installments for agreements negotiated by this Administration. Failure to provide previous amounts requested has significantly curtailed the lending programs of the ADF and FSO. The IDB lending program is essentially stopped. Obviously the FY 1986 budget request must be appropriated in full to prevent a continuation of these shortfalls.

As you know, Mr. Chairman, the Administration made an earnest effort to consult closely with the concerned members of the Congress in conducting our 1982 Assessment of the MDBs and the replenishments negotiated on the basis of the Assessment's guidelines. Moreover, President Reagan, in various international fora, has repeatedly stressed U.S. commitment to these institutions. Now, we urge your support for the Administration's MDB request so that the people for whom these institutions were created to serve will benefit.

ENVIRONMENTAL CONSIDERATIONS

Senator KASTEN. Mr. Secretary, thank you. I appreciate the reference in your statement to the efforts that we are making in terms of environmental considerations. I have written to both you and Mr. Clausen about the lack of environmental consideration by the World Bank, and the World Bank's treatment of U.S. environmental groups who are interested in this issue, and specifically about a project in Brazil which would seem, even to the uneducated person, if you will, to be a project with disastrous environmental effects.

I am waiting, as you know, for information which I requested from you and Mr. Clausen, and suggested a meeting, which we are now in the process of scheduling. In the meantime, can you tell me whether or not the Bank is taking any action with respect to this particular project in Brazil?

Secretary BAKER. I can tell you, Mr. Chairman, that the disbursements have stopped pending a resolution of the environmental concerns. It is my understanding that both officials from the Department and our Executive Directors at the Bank will be briefing you within the next 10 days or 2 weeks regarding the points raised in your letter. It is my understanding that Jim Burnham is due to come up and meet with you on it. In the meanwhile, disbursements on that loan have stopped.

Senator KASTEN. I want to thank you and your people for your responsiveness to the subcommittee's concerns on these issues. It is good that the disbursements have in fact stopped pending resolution of these environmental concerns. Perhaps we can work some of them out, or all of them out, but it is a fact that we very much appreciate your responsiveness to the concerns of the subcommittee.

We are in the process of setting up this meeting, and we will be working very closely with you.

Secretary BAKER. As I indicated, Mr. Chairman, in the summary of my statement, we happen to share your concerns. I personally believe very strongly in a clean environment.

NO FUNDING FOR SOFT LENDING WINDOW OF MDB'S

Senator KASTEN. The fiscal year 1986 budget documents project no funding for the soft lending window of the multilateral development banks in the outyears. This would indicate a decision by the administration that the United States will not participate in those institutions after the current replenishments are paid up.

Is this in fact the position of the administration? I might just say, parenthetically, if it is not, then we are involved in mirrors and smoke in this budget process if we are concerned about the ongoing support for the banks. I understand that there may be a question as to the exact dollar amount for one particular group, but nothing in the budget in the outyears indicates either that we are about to drop out, or that we are saying to the Congress: We are making these deficit figures look a little better, we shave them, and then some way or another, we are going to put the money back in.

Will the United States be participating in these multilateral development banks and, if so, at what level?

Secretary BAKER. Mr. Chairman, I don't think that it is an either/or situation as you suggest. I was there when the President made the decision not to put numbers in the outyears, and it was very well understood by everybody that no policy decision or determination had been made with respect to the question of outyear funding.

I might say, it is my understanding that the United States is the only participant in these institutions that reflects an outyear figure for the amount of its participation. If I am wrong on that, I don't think that it is particularly material, but I think that it makes no sense to show what you are thinking about in the outyears because that then becomes the floor on your participation.

If we are going to be able to negotiate changes that we all think are necessary in the policies of some of these multilateral lending institutions, we shouldn't give away our hand in advance by putting a dollar figure in the budget, which then becomes a floor in terms of negotiating what our participation level should be.

That is the reason that you don't see anything in the budget in the outyears. There certainly has not been a policy determination made that we will not participate in or that we will not participate above a certain level. As we have done in the past, we would expect to come up with a figure for you after we have consulted with the Congress, particularly with this committee, so that we know that the committee is happy with the figure, so the United States can act in concert and can know that once we arrive at a figure, it is a figure that is going to be funded, unlike the situation that we now face with respect to fiscal year 1985.

The reason that we did not put figures in there primarily is because of negotiations. We will have very little leverage if we stick a dollar amount in there, and then seek to negotiate changing in lending policies.

FAULTY BUDGETING

Senator KASTEN. Mr. Secretary, as Mr. Conrow and others in your group know, we are all for you in terms of negotiating, and we are all for you in terms of trying to reduce the percentage of contribution to a number of these different groups.

Your answer is similar to the answer that Secretary Shultz gave to this subcommittee. However, if I put my Budget Committee hat on, seeing the outyears with zero for the banks, we will end up with no money, which means that the money will have to come from somewhere, which means that itmay end up coming from the Security Assistance Program, or it may end up coming from the Economic Assistance Program, or it may end up coming from the other programs in the Function 150 account.

I understand your answer. I appreciate your answer. I look forward to working with you in developing the toughest negotiating position with you and the administration that we are able to develop, but I think, at the same time, we are doing a little bit of faulty budgeting. There are a lot of accounts that we can reduce, but the foreign aid account is not one. Once you start to break down the budget in foreign aid, you get into serious difficulty.

Senator DeConcini.

SUPPORT FOR NONFUNDING IN OUTYEARS

Senator DECONCINI. Mr. Chairman, thank you very much.

Mr. Secretary, I have no problem at all with your not putting in any amounts in those outyears. As far as I am concerned, I hope you cut them substantially, even though some of them, I have to admit, have been beneficial. I just find it very difficult, and I hope that that policy decision is weighed heavy when we are asked to cut back in many, many areas that I am sure even you agree are good beneficial programs, and then to see increases in outyear projections in the International Monetary Fund, and other international funds that we have.

I, to this day, have a difficult time swallowing the $8.4 billion IMF replenishment we made in 1984 at the same time that we were asked to cut student loans, farm programs, and many other things.

I wish you well, and I hope that you not only negotiate, but that you will come back with a lesser figure. I have to agree with the chairman that what you just said needed to be said, because I think the administration's credibility up here is put under severe scrutiny when you are proposing budgets to get to $100 billion deficits within 3 years, and you are not including funding for things that you know you are going to get something. I appreciate your forthrightness in explaining that something is going in, so that we are not kidding ourselves, but you are going to be negotiating from a lower level, I hope.

Mr. Chairman, I have no further questions. I want to compliment the Secretary for his leadership in his new role in the few weeks or months that he has been there. He has done a good job, and we are very pleased with the transition there, certainly in the area of drug enforcement. We have seen a major commitment and cooperation to that effort. I thank him for his continued support.

Senator KASTEN. Thank you, Senator.

Senator Specter.

Senator SPECTER. Mr. Chairman, thank you.

INTERNATIONAL MONETARY FUND

Mr. Secretary, along the same line, when your predecessor Secretary Regan was here, there was extended discussion about the International Monetary Fund, and we raised the same issue here this morning. It was put in sharp focus by a question that I asked at that time: "Why should a Pittsburgh steel worker pay taxes to the U.S. Treasury that advances funds to the International Monetary Fund totaling $8.4 billion which makes loans to Brazil, which subsidizes Brazilian steel that is imported into the United States and puts steel workers out of a job?"

There is one initial element of that which was talked around this morning, and that is unemployment benefits. Federal supplemental benefits expired March 31. Yesterday, by a vote of 58 to 34 in the U.S. Senate, we voted not to extend those benefits for a 6-month period. It may have paved the way for an affirmative vote to leave those who are on benefits to continue to receive the benefits, which is really not adequate when you confront the kind of problems which confronted my State of Pennsylvania, especially going back to Pittsburgh.

The question that I have for you is how can we philosophically justify these subsidies by U.S. taxpayers where they are taking jobs from U.S. taxpayers by subsidized, dumped goods?

Secretary BAKER. Senator, the only answer I can give to that is that the United States, I think, is sensitive to development projects that compete with and/or injure U.S. producers. I don't think that the vast majority of IMF lending or lending on the part of these other institutions falls into that category.

I recognize that there are instances where that does occur. I think that the overall good that these institutions do in terms of promoting international economic stability and promoting growth, if you will, in some of the lesser developed countries perhaps outweighs those instances.

Frankly, I expected Senator DeConcini to ask me a similar question about some copper projects. We have voted against a number of those in the past. I think we have voted against a number of steel projects.

The only answer I can give you is that I think, on balance, the institutions do far more good than they do harm. We are trying to work with the institutions in a way that will permit us to have more say with respect to their policies. The point you make is a very valid one.

PROHIBITION ON USE OF FUNDS

Senator SPECTER. Why shouldn't we put prohibitions on the use of any of these funds on the basic principle where they go to countries that subsidize and send goods back to the United States which drive up our unemployment rates? Why shouldn't we make that a condition?

Secretary BAKER. I think that would be very, very difficult to do, very difficult to enforce, and extremely difficult to carry out. Again, it is the kind of thing that we ought to be sensitive to, and we ought to be alert to, but to mandate a prohibition, I think, would tend to be self-defeating. It would certainly be something that would be protectionist in nature, and I know that we don't want to start down that road.

Senator SPECTER. My sense is that we should, and I am going to consider such an amendment.

LOANS TO U.S. STEEL PRODUCERS

On the other hand, I was talking to Mr. Dennis Carney, and Wheeling-Pittsburgh is having a terribly difficult time in making ends meet. We have discussed the possibility of having a loan on equal terms from the International Monetary Fund. Why not have some of these loans made available to U.S. steel producers?

Secretary BAKER. I think, if the United States should ever have a balance of payments need and can meet the criteria of the Fund, there should be no reason why the U.S. Government shouldn't use Fund resources.

Senator SPECTER. Would Pittsburgh-Wheeling Steel Company be eligible?

Secretary BAKER. No.

Senator SPECTER. Well, there is another amendment.

One final question, Mr. Secretary. I have a conflict this morning of a rather unusual nature. There is a basketball team, Villanova, being feted at the White House, and first things first, Pennsylvania.

A related question on the Japanese issue which has attracted a great deal of our attention. In a State like mine, I hear the complaints both ways. The farmers complain that they can't ship their beef or their chickens, poultry, et cetera, to Japan. What is wrong, Mr. Secretary, with a flat prohibition against any Japanese goods coming into the United States in excess of what they permit us to export to Japan?

Secretary BAKER. The only thing that I think is wrong with that, Senator, is that that is outright protectionism, and what you would end up with, in my opinion, is a trade war.

Senator SPECTER. Don't we really have that now?

Secretary BAKER. I am not sure that I would agree that it is inevitable.

Senator SPECTER. Because it takes two parties to be at war, and right now only one is?

Secretary BAKER. No, that is not the case. No. 1, I am not sure that such legislation would be passed and would ultimately become law, but even if it did——

Senator SPECTER. Are you suggesting a veto?

Secretary BAKER. No, sir, I am not. I think that it is too early for us to assume that that is going to be the end result of the difficulties that we are now experiencing.

U.S. TRADE DEFICITS

Senator, I don't mean to minimize in the slightest the problem that is presented by our trade deficit, and particularly our trade deficit with Japan. I would like to suggest, and I have only had 8 weeks to experience this, but I do chair the interagency group that deals with this question of the international economic policy and the question of the negotiations with Japan. I know how hard we are working, and I also know the progress that we are making with respect to measures to open up those markets. It is not going to happen overnight, and we need more access to Japanese markets for poultry products, telecommunication, and a lot of other things.

I am not sure that the only way to get there is to have an all out trade war. I am not sure that we would win that.

Senator SPECTER. I understand your point, but the straw that broke the camel's back did come, I think, with the increase in their auto exports, and projections. My sense is that unless we do something like you and I have talked about so frequently, opening up Federal court jurisdiction to enjoin dumping and subsidies, that we are going to come to something that is very mechanistic and perhaps has to be there.

Secretary BAKER. Could I add one thing, Senator?

We are very anxious, if we can do so, to negotiate a new trade round at the Economic Summit that the President is going to in Bonn. I think that if legislation like this became law in this country, it would foreclose the possibility of our being able to do that. I don't think that anybody questions the advisability of a new round of trade negotiations.

UNDERSTANDING WILL OF THE PEOPLE

Senator SPECTER. Mr. Secretary, I hear you, but I doubt that. I think that the exact opposite might be so. I think that our trading partners should see that there is a determination on the part of the Congress, reflecting the will of the people. If you went to as many town meetings as I do, and faced as many farmers and steelworkers as I do—that is the beauty of our system, that is what we are supposed to do, and we do do. You don't have the opportunity to do that quite as frequently as we do, you get to come to these legislative hearings instead.

There comes a time in the campaign when the Executive Branch has that unique opportunity, as Vice President Bush did, to make a trip to New Castle, PA, on Saturday before the election where there were more Ferraro signs, or Mondale/Ferraro, than Reagan/Bush signs, where there is a real sense for what is going on.

I think if the popular will of the people would have shown through on legislation such as we passed in the Senate last week that finally got their attention, that the President's hand might be strengthened, and he might get some more response from our trading partners.

Secretary **Baker**. Let me just say that I have not just hatched, and I do make political appearances. I do not underestimate or seek to minimize in any way the strength of the feeling out there on the part of the people on the trade problem, because I quite agree with you, it is there. It is there in spades, and it is fundamental.

Senator **Specter**. Mr. Secretary, I am really delighted to see you in this job. You are doing an outstanding job in your transfer from Chief of Staff to Secretary of the Treasury. I agree with the policies that you are carrying out. Congratulations.

Secretary **Baker**. Thank you.

Senator **Specter**. Thank you, Mr. Chairman.

ASSESSMENT OF NEGOTIATIONS

Senator **Kasten**. Mr. Secretary, I just want to say that the Senator from Pennsylvania is touching on some points that I know are of great concern to all members of the subcommittee. Despite the fact that we are involved in those negotiations, my assessment of those negotiations might be slightly different than yours. The sense up here on the Hill is that when it gets down to it, our negotiator is the one who backs down first. Our negotiator is the one who says: We are going to walk out with a little bit of beef and a little bit of citrus, and we are going to go back home and call it a victory. That is not playing very well on the Hill right now.

Secretary **Baker**. That also does not happen to be my view of it. I don't think that there was any suggestion of victory in the statement that was made the other day. It is a question of progress. I think there has been progress in those negotiations, and I think that our negotiators have been tough and they have stuck in there.

I believe that there will be progress, maybe not sufficient to do what some of you up here think needs to be done in the short run, but I really do believe that there has been some progress.

NEGOTIATING TOUGHNESS IN FOREIGN POLITICS

Senator **Kasten**. There is another sense up here, and that is that the political elements, the constituency groups, in a number of cases with our trading partners, are viewed to be as tough or tougher than we are. In other words, the political elements in Europe and the political elements in Japan are tougher, particularly the agriculture, the shoe workers, a couple of groups that said: This is simply off limits. You can't talk about this because this is the way it is.

Some of us feel that what we have to do is to mobilize power so that you and other negotiators in our country can walk in and say: No way. We simply can't do this in agriculture, or on shoes, on tubular steel, on citrus, on beef, on whatever it might be.

This is an issue that is clearly changing, and one that ought to be of great concern to all of us.

ASSISTANCE PROGRAMS TO VARIOUS COUNTRIES

Let me switch now. There are a number of issues that are of concern to us on the subcommittee dealing with matters that, frankly, we felt were entirely under the control of the Agency for International Development [AID] and basically entirely in the State Department, regarding assistance programs to various countries.

I want to particularly talk about Honduras and the Dominican Republic. Because of the IMF and a number of different issues, all of a sudden we have gotten ourselves in the business of micro-managing some of these economies. The subcommittee has been informed on a number of occasions that the delay in disbursement of foreign aid is due to the position of the Treasury Department. On a number of occasions in the past, these programs have gone forward, except for objections by Treasury. Treasury got in the loop through the hook with IMF.

I don't know exactly why Treasury is involved after we have approved the funds, but nevertheless we are talking about decisions with respect to foreign policy and about funds which have been voted for and appropriated by the Congress, and which we assume are going to go forward based on the foreign policy considerations that persuaded the House and the Senate to vote for those funds in the first place, and for the President to sign the bill.

We have to have a better understanding of the role that Treasury is playing in this. Perhaps we should have you here testifying on the entire bilateral assistance program and all of the military assistance, but that is not your role as we view it.

I am particularly concerned about Honduras. One of our allies, which is trying to do all that it can to help us, and here we are with a hold up of dollars that they need; $75 million, we are told, is being held up pending decisions that some in the U.S. Government are trying to squeeze them into making. It is our understanding that the Treasury Department, or you, are part of this effort.

Honduras is helping us. Honduras is our ally. To stop the disbursement of funds, particularly to Honduras, but also to the Dominican Republic, at a time when they are helping us in so many ways, I think is an extension of the Treasury Department's role which we cannot go along with.

What is the situation?

Secretary BAKER. Mr. Chairman, let me talk, if I might, about the overall problem first, and then maybe we can get some specifics on Honduras.

I am sure that nobody would quarrel, and I am sure that you would not quarrel with the desire by our Government in the executive branch to act in a coordinated and unified way with respect to foreign policy. Economic policy and foreign policy are not separable, not totally separable. We want to coordinate an approach to our assistance to countries. We seek to avoid a situation, in many instances, where the release of a small amount of aid to a country can frustrate larger flows of capital resources from commercial banks, from the IMF, or, for that matter, from the MDB's. That is where Treasury comes in, and that is where Treasury puts some oil on the water.

We, quite often for political or strategic or purely foreign policy considerations, will override the economic considerations. We did this long ago; I won't mention the country publicly, but I will be glad to privately. This happens frequently.

Our overall objective, Mr. Chairman, is one that I know you would not quarrel with, and that is to seek a coordinated approach to our assistance, but second, to get these countries on a path to growth. The differences arise with respect to what measures are necessary to achieve that growth. We feel that some of the free market oriented types of policies that we have been implementing domestically are in many cases more appropriate than some of the policies that some of the multilateral development banks suggest. So we are on the same wavelength with you on that. We are not on a different wavelength.

I don't think that it is appropriate for the executive branch to act as a bunch of independent systems. There should be coordination between AID and the Cabinet department that is administering the other capital resource programs that are going to countries. You can't look at $10 million of aid in isolation. You have to look at it in terms of what it is going to do or what it might do by way of frustrating the larger flows to get that country back on its feet.

OPPOSITION BY TREASURY DEPARTMENT

Senator KASTEN. I am all for coordination. When we start to dig in on some of these issues, then they say State is for it, AID is for it, but Treasury is opposing it. We are asking for coordination, but these funds were requested by the administration, and we, in certain cases, particularly in Central America, fought for the administration request. We worked with them to get it through Congress. Now the Treasury is opposing it.

Secretary BAKER. Treasury is not the only agency opposed to it. What we are seeking to do there is to have a coordinated response to the problems that the countries experience, and not to go out there and have the left hand act counter-productively to the right.

There is an interagency agreement with respect to Honduras, involving AID, State, NSC, and Treasury with respect to the timing and implementation of delivery of that assistance, and it doesn't have anything to do with IMF. They have not been involved.

Senator KASTEN. I do not want to get involved in a discussion of whether or not the policies being suggested by the IMF and others are accurate thinking, increasing taxes on the producers and reduce taxes on the others. There is a whole other set of issues here.

Secretary BAKER. I would agree with you.

Senator KASTEN. I do not agree with many of the actions that a number of these international or multilateral organizations are taking, but this is not the time to discuss that.

We are concerned, after we jump through all these hoops that the reason that these dollars are not going forward, particularly today in Honduras and the Dominican Republic, is because——

Secretary BAKER. The hold is off on the Dominican Republic.

Senator KASTEN. Particularly with countries that support us and are helpful to us, we do not want to find ourselves in the position of waiting for one tax increase on the producer or one more devaluation, or some other effort that somebody is hanging out for, when we have people that worked to get this funding, when the Congress, the Senate and the House and the President has signed into law an appropriation of dollars that is supposed to go to that country.

Secretary BAKER. Suppose we worked an economic reform program that you and I would agree with for Honduras that was growth oriented, and it was not the kind with respect to which you disagree, and we couldn't get Honduras to go along with that program because they were going to get some AID money over here, and they would resist doing anything until they got that AID money. You would not suggest to me, I don't think, that we ought not to have a coordinated approach on that.

Senator KASTEN. I do not disagree with that, but it means that we ought to expand your testimony here today, and you ought to start testifying country by country regarding all foreign aid. That is not the role that we view Treasury as having.

Secretary BAKER. I don't seek that role.

Senator KASTEN. You have it. You have taken it.

Secretary BAKER. No, we haven't. We are a player. We are one player in this case, in the case of Honduras. The others happen to be purely foreign policy organizations, AID, State, and NSC.

ISRAEL SUPPLEMENTAL

Senator KASTEN. I know that you have time constraints, and we are going to try to meet your time constraints. Let me switch, if I can, to the Israel supplemental.

It is my understanding that yesterday afternoon or last night, the House authorizing committee recommended a supplemental for Israel. My understanding is that it is $1.5 billion, with the understanding that it will be $800 million in fiscal year 1985 and $700 million in fiscal year 1986. A number of us in Congress believe that Israel has taken many of the steps necessary toward economic stabilization, and many of the steps that Israel can take at this time. We are aware that the State of Israel is working toward benchmarks that have been agreed on between the United States and Israel.

We have a 10-point outline now, whether they can meet all 10 points in a relatively short period of time is not clear. But we have a strategy. We are also informed that there is a real effort going on once more from OMB and Treasury to block the recommendations of a number of the policy people at State. What is the position that Treasury has on the $1.5 billion supplemental passed in committee last night? Do you support it, or do you oppose it? What is the administration's position, and what kind of a decision are we working toward in terms of a supplemental request for the State of Israel within the next couple of weeks?

Secretary BAKER. Talks are still going on with respect to that supplemental. It is my understanding that Herb Stein and Stan Fisher both testified yesterday in executive session before the House Foreign Affairs Committee. It is my understanding, and my understanding gibes with yours, that a lot has been done, substantial progress has been made, but more needs to be done before the administration can support a $1.5 billion supplemental. That is where we are.

NONSUPPORT FOR ISRAEL SUPPLEMENTAL

Senator KASTEN. Is the administration opposed to the $1.5 billion at this time? I understand that it has not supported it, but is it opposed?

Secretary BAKER. It is not supported, I think that is a better way to phrase the position. I don't know what the Secretary told you when he testified before you yesterday.

Senator KASTEN. The Secretary testified before us, but not yesterday.

This is an issue that has been of great concern to the subcommittee, and I think it would be frank to say that it was the hope of the administration that the House Committee would not go forward, which was one of the reasons that they met in executive session, but they have gone forward. Now you find yourself in a position, it seems to me, of deciding whether or not to go forward on a congressional basis without administration support, and without an understanding of the basic guidelines.

The administration is losing leverage in the process, and I am hopeful that somehow we can agree. The Government of Israel understands what needs to be done. The people of Israel understand what needs to be done. Additional pressure is not what is needed. What is needed now is understanding, and what is needed now is support as they go through these difficult hoops that they are prepared to go through.

U.S. BUDGETARY PROBLEMS

Secretary BAKER. Mr. Chairman, we have to be concerned about the fact that we have major budgetary problems of our own. We have a major budget restraint underway. It is very difficult, as you know. I think that we have to be concerned about the budgetary implications of going forward, if we go forward, in the face of an economic program with respect to which we have doubts.

We want to know, if we go with a supplemental of that size, that the economic steps will work. We have no basis for judging that beyond the testimony and advice of the experts who are advising us. They have said, as you have suggested, that substantial progress has been made, but more remains to be done.

Senator KASTEN. It depends on which experts you are talking to on which day. You are aware of the battle that has been going on, and I am hopeful that we can all start to step forward and coordinate our efforts.

Let me switch because there are a couple of other questions that I have.

TAIWAN MEMBERSHIP IN ASIAN DEVELOPMENT BANK

The annual meeting of the Asian Development Bank comes up at the end of the month. Right now, do you anticipate any problems in that meeting with reference to the People's Republic of China and Taiwan? Specifically, will the U.S. continue to advocate the position that Taiwan will not be forced out in order for the People's Republic of China to become a member; that the membership of the People's Republic of China will not be at the expense of Taiwan; and will we continue to press the position that Taiwan will not be required under any circumstances to change their name?

Secretary BAKER. The answer to your question, No. 1, is yes. The answer to question two, in my opinion, is they will not be forced to accept a name change that would be unacceptable to them, provided on a basis of reasonableness, that is the way I would put that.

Senator KASTEN. What you are saying is that——

Secretary BAKER. Provided that they are not unreasonable in looking at various ways that their participation can be denominated.

Senator KASTEN. If I understand what you are saying, Mr. Secretary, under no circumstances that you can perceive are we going to be involved in any effort to have the People's Republic of China participate in the Asian Development Bank at the expense of our ally Taiwan, whether it is a name change, a membership change on a committee, subcommittee, or whatever. It is not going to be at the expense of our ally.

Secretary BAKER. It is our position, Senator.

INDIA PARTICIPATION IN ASIAN DEVELOPMENT BANK

Senator KASTEN. What about the issue of India becoming a borrower of soft loan money from that institution?

Secretary BAKER. We have agreed to a modest program of $100 million from 1984 to 1985, and another $100 million for 1986 and 1987. Both of those, I think you would agree, are relatively modest. As you know, India's borrowing from IDA has been reduced from 40 percent in 1980 to approximately 28 percent last year.

Senator KASTEN. The subcommittee, and I am sure the administration, is concerned about one country ending up taking a huge share of funds from any of these MDB's, particularly when that country does not necessarily share our ideals.

You are a great supporter of economic growth, and I am a supporter of economic growth, and members of the subcommittee are supporters of growth. If we are to see the dollars go to work, we would like them to go to work toward the same basic goals that I know you advocate.

CAPITAL INCREASE IN IMF AND WORLD BANK

In his column a week ago, Hobart Rowen indicated—this has to do with the IMF and the World Bank—that we are ready to go ahead with yet another capital increase. Senator DeConcini referred this morning to the capital increase that we passed the last year, and this capital increase Rowen refers to will be at about the same level as the previous one. This is for the World Bank. The article infers that the United States supports this position.

What is the position of the United States with respect to yet another capital increase for the World Bank at this time, and let me define "at this time" as being between now and December 31.

Secretary BAKER. Mr. Chairman, we do not believe that the case has been made to warrant a general capital increase for the World Bank. I can only speak as of today. I suppose it would be possible, theoretically possible, that the case could be made. The case has not been made as far as we are concerned. We don't think that a general capital increase is warranted where the bank failed to use all of the lending authority last year.

Senator KASTEN. Mr. Secretary, I am going to say that I believe the subcommittee shares your view. I agree with you that the case, in my opinion, has not been made. I think that it would be fair to say that there will be opposition on this subcommittee with regard to that kind of a capital increase.

REPLENISHMENT FUNDING FOR IMF

We talked about the World Bank. There is no request this year for the IMF. Do you anticipate that there will be a request for funds for another replenishment for the IMF in the next year or two?

Secretary BAKER. I can't anticipate what will be requested, but I can state that our position, Mr. Chairman, is that we see no need for such an increase in the foreseeable future.

Senator KASTEN. The IMF increase developed considerable political interest in the last battle that we went through. I would also say that I share your view, and I am hopeful that we will not be faced with another IMF increase, and at this time I see no justification for that either. So I am pleased with your answer.

SUBMITTED QUESTIONS

Mr. Secretary, there are a number of questions that we will submit for the record, and there will also be some questions from other members of the subcommittee.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR KASTEN

IDB LOANS FOR NICARAGUA

Senator Kasten: Mr. Secretary. One of the reasons many of us have been concerned and somewhat negative toward the Inter-American Development Bank is that institution's insistence on coming up with programs for Nicaragua, notwithstanding the fact that the World Bank has decided on economic grounds that country is simple not eligible for such loans.

What is the Status of any loans, or of any possible loans to Nicaragua in the Inter-American Development Bank?

Secretary Baker: No loans are scheduled to come to the Board. The following loans are listed in the Monthly Report on Status of Loan Applications and Technical Cooperation Requests and Status of Procurement:

Project	Amount	Status
Water Supply & Sewerage in Cities and Localities	$42.0	Application being Reformulated
Geothermal Fields Feasibility Study (El Hoyo)	$18.9	Project Report in Preparation
Agroindustrial Global Credit Program	$16.5	Awaiting Documentation
Agricultural Credit Global Program	$58.4	Project Report was Considered by Loan Committee
Agricultural Cooperatives Development Project	$12.0	Awaiting Documentation
Industrial Reactivation Program	N/A	Under Preliminary Analysis
Feeder Roads II	$18.0	Awaiting Documentation

MULTILATERAL DEVELOPMENT BANK ROLE IN CENTRAL AMERICA

Senator Kasten: The Kissinger Commission recommended increased multilateral funding for Central America as part of the overall Central American program. Obviously, the United States would shoulder a major responsibility in persuading the multilateral development banks to undertake additional programs in that region. What is the status of your efforts along these lines?

Secretary Baker: I am convinced that multilateral development bank lending for productive projects in a framework of sound economic policies can make a major contribution to inducing broadly based growth in the countries of Central America. In addition, the banks can play a key coordinating role among the foreign assistance donor countries.

In the table below, you will find the multilateral development bank lending levels to the countries of Central America in recent years (in million dollars):

	1980	1981	1982	1983	1984
Guatemala	17.0	70.0	0.0	141.1	63.9
Belize	*	*	0.0	5.3	0.0
Honduras	153.0	28.0	43.0	165.0	34.6
El Salvador	0.5	1.0	90.0	6.0	100.5
Nicaragua	54.0	38.7	40.4	30.7	0.0
Costa Rica	126.0	40.0	25.0	60.8	58.3
Panama	100.8	81.8	65.7	160.0	74.2

* Not a member

In recent weeks, we have urged the World Bank to send an economic mission to El Salvador in order to establish the necessary analytical basis for a substantial lending program. I understand the mission is scheduled to go in May.

The Inter-American Development Bank chairs the Central American Consultative Group. The last meeting in September 1983 did not have the catalytic effect on donors that we had hoped for. Nor was the subject of improved economic policies aired as fully as appears necessary.

An approach that holds promise of better progress would be to hold country specific meetings of the Consultative Group. I believe the Bank is preparing to proceed along such lines.

FUTURE ROLE OF THE WORLD BANK

Senator Kasten: What is the status of the World Bank's study of its future role? How is the United States participating in this study? What results do you expect from this study and when? What are the likely implications for future levels of U.S. financial participation and for improved coordination with U.S. bilateral aid programs?

Secretary Baker: The World Bank initiated (on June 8, 1984) a series of studies and discussions with Executive Directors on the Future Role of the Bank. The intent was to develop a plan for the Bank's operations over the next several years. The United States is participating actively in this exercise through our Executive Director at the Bank.

Discussions to date have revealed a consensus among members that the Bank's traditional strengthens -- in project design, in supervising project implementation and in institution building -- should remain the "mainstay" of Bank operations in future years. At the same time, members favor continued selective use of non-traditional lending, e.g., structural adjustment and sector adjustment loans, in support of policy reform.

The Bank's "catalytic role" and its role in promoting improved economic performance and adjustment have also been stressed. In addition, there is a consensus on the need for enhanced aid coordination, with the Bank having already moved to expand its aid coordination effort in Sub-Saharan Africa.

The Bank hopes to present to the October Annual Meeting in Seoul a report which provides projections of Bank lending over the next five years, and their implications in terms of resources needed to finance such lending. We will be giving this report very careful study and will consult closely with the Congress regarding possible future funding implications for the United States.

Senator Kasten: How is the United States participating in the World Bank's Special Facility for Sub-Saharan Africa? Is U.S. bilateral assistance to Africa being coordinated with the World Bank's Joint Program of Action for Africa.

Secretary Baker: Rather than participating in the Special Facility, we are concentrating on efforts to improve the impact of our bilateral programs and enhance the effective use of existing multilateral resources. Total U.S. bilateral assistance to Sub-Saharan Africa rose from $708 million in FY 1980 to $843 million in FY 1983. It is projected to total over $1.8 billion in FY 1985; more than $1 billion in commitments of food aid and $789 million in assistance excluding food.

We fully support the Special Facility's objectives which are very similar to that of AID's targeted assistance for selected African countries pursuing reform which is being closely coordinated with the Bank.

DEMAND FOR IBRD/IDA LENDING

Senator Kasten: What has been the level of demand for World Bank loans and IDA credits over the past year? What are the implications for World Bank and IDA funding requirements? Has demand changed for the other Multilateral Development Banks? What are the reasons for this change in loan demand?

Secretary Baker: FY 85 IDA commitments are projected at about $3 billion, a level consistent with the resource availabilities of the Seventh Replenishment (IDA VII).

IBRD commitments totaled $11.9 billion in FY 1984, and were projected to be in the $12.6 to $13.3 billion range in FY 1985. The Bank now estimates the likely FY 1985 commitment level at about $11 billion. Lowered commitment expectations in ten countries (Nigeria, Peru, Brazil, Turkey, Thailand, Ivory Coast, Argentina, the Philippines, Zimbabwe, and Egypt) account for about 90 percent of the anticipated reduction in lending.

In a recent paper on "Prospects for IBRD Lending", the Bank set forth a number or reasons for the decline in lending:

(1) Creditworthiness and Performance Problems

- * some recipient countries have delayed adopting policy reforms which would ensure effective use of Bank resources.
- * there have been delays in reaching agreement on sector and project-related policy issues. In several countries, projects have been held up by lack of progress on pricing, tariff and interest rate adjustments considered critical to project soundness.

(2) There has been a significant weakening of the project pipeline as a number of countries have had to reorient and reduce their investment programs to conform to budgetary and/or foreign exchange constraints. Many new investments are being delayed or cancelled as priority goes to working capital financing and maintenance of current imports. The reduced pipeline provides much less scope for substituting alternative projects when difficulties or serious delays are encountered with a programmed operation in a given country.

(3) In the past, opportunities for increased lending tended to offset any program reductions. This is no longer the case as countries with potential for increased lending account for only 20-25 percent of the Bank's lending program. (Downside risks currently characterize countries which together account for over 70 percent of the Bank's lending program.) In addition, shortfalls in projected lending to major borrowers are too large to be prudently absorbed by other countries.

(4) Lending to some countries is constrained by a lack of interest due to access to private capital markets, limited need for external finance and/or domestic market constraints.

The slowdown in IBRD lending has added a significant element of uncertainty into projecting the Bank's future lending demand and funding requirements. The Bank and members (including the United States) will be looking at these matters very carefully in coming months.

Lending demand is also generally below previous expectations in both the Asian and African Development Banks, but in the Inter-American Development Bank lending demand has remained firm due in part to the Bank's Industrial Recovery Program and Special Operating Program.

INTER-AMERICAN INVESTMENT CORPORATION

Senator Kasten: What is the present status of the recently created Inter-American Investment Corporation (IIC)? How will the IIC's program differ from the programs of the World Bank's International Financial Corporation? Are similar programs being planned by the Asian and African Development Banks?

Secretary Baker: On November 19, 1984, thirty-four countries reached a final accord on the Agreement Establising the Inter-American Investment Corporation (IIC). The deadline for these countries to formally become members of the IIC has been set at December 31, 1985. As of mid-April 1985, thirteen countries have signed the Charter: Barbados, Costa Rica, Dominican Republic, Ecuador, France, Guatemala, Guyana, Honduras, Jamaica, Nicaragua, Peru, Trinidad and Tobago, and Venezuela. Of these thirteen, four -- Barbados, Guyana, Jamaica, and Peru -- have taken all necessary actions to become members of the Corporation. We are anticipating a ceremony in which the United States formalizes its IIC membership in the spring of this year. We are hopeful that the remaining signatory countries will join us in taking formal steps as soon as possible so that the IIC can become a reality.

The IIC will be performing a unique and needed role. Unlike the IFC, its focus will be solely on small and medium size enterprises. It will fill a need created by a serious lack of private sector access to capital markets. Let me note here that the IDB conservatively estimates a gap of some $1.2 billion annually in long-term financing for small and medium size enterprises in the region. The IIC will also be administratively unique in that its four-person Executive Committee has been designed to be stream-lined, more flexible, and, hopefully, more efficient. The cross fertilization to occur between the IIC and the IDB proper also contributes to the IIC's uniqueness.

As to the other regional development banks, the Asian Development Bank has begun to make equity loans through its ordinary capital window. In addition, it is expected that the Board will adopt a policy in the near future allowing the Bank to lend to private sector organizations without requiring a government guarantee.

The African Development Bank is currently reviewing its industrial policy including the question of whether a new institution is needed to promote private sector enterprises in Africa.

AFRICAN DEVELOPMENT BANK LOANS

Senator Kasten: In Fiscal Year 1984, the United States abstained or voted "no" on 10 proposed African Development Bank loans while opposing only two loans from the Inter-American and Asian Development Banks. What are the reasons for this disparity? Is the Agency for International Development's Technical Assistance Program to the African Development Bank addressing this problem?

Secretary Baker: There are three reasons why the United States has opposed a higher proportion of loans for economic and/or financial reasons in the African Development Bank than in the Inter-American or Asian Development Banks. The first reason is, unfortunately, the AFDB has a more permissive policy towards cost overrun lending than do the other MDBs. In USFY 1984, we opposed five unjustified cost overrun loans in the AFDB. During this same period there was only one loan in the Asian Development Bank and none in the Inter-American Development Bank. Secondly, Ethiopia is the only nation where the Gonzalez Amendment regarding uncompensated expropriation of American-owned private property is relevant. We opposed three AFDB loans to Ethiopia in USFY 1984 for that reason. Naturally, we have also opposed all World Bank loans to Ethiopia due to expropriation. Finally, the over all quality of AFDB loan proposals is still somewhat below that of the other MDBs. Nevertheless, the quality is improving and we are optimistic that AID's techncial assistance will improve this situation still further.

QUESTIONS SUBMITTED BY SENATOR INOUYE

Senator Inouye: Am I correct in my understanding that you, as Secretary of the Treasury, are the man in charge of U.S. participation in the multilateral development banks? They are under your jurisdiction, is that not correct?

On January 30, 1985, the Secretary of State took the unprecedented step of writing directly to the President of the Inter-American Development Bank urging the rejection of a loan to Nicaragua.

Why was it the Secretary of State and not you who made this call? Did you not approve of the policy?

Did this action not threaten to politicize the Inter-American Development Bank and thereby undermine its multilateral, apolitical nature?

It was an unprecedented action, was it not?

Would the United States look with favor upon the actions of the foreign minister of Honduras if, for example, he were to oppose a loan to El Salvador because of the continuing border dispute between the two countries?

For the record, what is the intended purpose of the proposed loan to Nicaragua? Its beneficiaries would be the poor, is that not correct?

Are we cutting the poor off from assistance because of a political dispute with the Government of Nicaragua? How does that serve the development of democracy in Nicaragua?

Secretary Baker: The President has designated me to be the United States Governor to the IDB and I am awaiting Senate confirmation. The Treasury Department has the lead on issues relating to the IDB.

However, the State Department also has an interest in IDB issues. While, as I said, Treasury has the lead on issues relating to the IDB, the State Department also has a role to play.

In terms of the specific loan in question, we were in full consultations with the Department of State. We were aware that the Department of State was going to convey at the highest levels their concerns to the Bank. More to the point, we concurred with the views that Secretary Shultz expressed.

As Secretary Shultz said, we have serious reservations about Nicaragua's economic policies, its policies regarding honoring its obligations to international institutions, and its creditworthiness. Nicaragua is in arrears in debt repayments to most of its major creditors, including substantial arrears to the IMF and the World Bank. Furthermore, it appears to be making no real effort to repay either the IMF or the IBRD. We see no prospect for any orderly resumption of debt service by Nicaragua in the foreseeable future. How can the IDB lend to a country under such circumstances?

We have conveyed to the IDB that we do not believe a loan to Nicaragua makes economic sense in light of the current policy environment in that country, and in terms of what we understand to be the specifics of the proposed loan. This was the message that was conveyed by Secretary Shultz to the Bank, and it is one in which the Treasury fully concurs.

The United States, under Treasury's lead, consistently has followed a policy of opposing loans which in its view will not contribute adequately to the economic development process. Over the past four years, we opposed numerous loans with such problems to at least ten different countries (including Nicaragua) in the IDB. We will continue to do so. And, as appropriate, we will continue to express our concerns to the Bank through official channels.

As the loan document for this specific loan has not yet been distributed, I am unable to provide any specifics on the project or its intended beneficiaries. As I understand it in general, however, the loan would be for small and medium size agricultural producers.

EXTERNAL DEBT OF LATIN AMERICA

Senator Inouye: Recently there have been vast swings of opinion on the subject of Latin American debt. Today's optimistic report that Latin American debt is well under control becomes tomorrow's headline noting the reappearance of the debt crisis.

What are your views? Does Latin America still face a debt crisis?

How does this continuing crisis affect U.S. interests?

What role is being played by the multilateral development banks in meeting this crisis?

Did the MDBs contribute to the creation of the crisis through inappropriate lending policies?

As Secretary of the Treasury, what measures will you take to encourage the MDBs to be more responsive to the debt crisis and to improve their lending policies?

Secretary Baker: The initial phase of the debt problem in Latin America and other areas is behind us and the trends favor further improvements. Significant economic adjustment has taken place, but adjustment efforts must be continued and much remains to be done. Many countries still face fundamental problems including excessive inflation, unsustainable public sector deficits, and unrestrained monetary growth. Despite expanding world trade and adjustment efforts, debt service obligations in many cases are still onerous in relation to export incomes and it will take several more years to achieve "normal" spontaneous financial flows to countries that depend heavily on private international credit. On the other hand, we remain very seriously concerned by the situation in Africa and certain other areas that depend heavily on official multilateral and bilateral financing. Significant policy reform programs are underway in a growing number of these countries and the prospects are good for a resumption of real growth for the first time in four years. Nevertheless, in this region, as elsewhere, the importance of government policies in creating a secure environment in which individuals have the incentives to save, invest and work, is paramount.

The United States has vital economic, political and strategic interests in many of the heavily indebted countries. As long as the problem lingers, it will hamper their economic progress and growth, create uncertainty about the future, and exacerbate political and social tensions. Our interest in trade and investment, and in the development of stable democratic societies will be effected adversely until the problem is reduced to more manageable proportions.

The MDBs did not contribute to the creation of the crisis through inappropriate lending policies. On the contrary, the results would have been worse from the points of growth and effective use of resources if they had not been lending. Since the outbreak of the crisis, they have made valuable contributions to the necessary restructuring of debtor country economies. Their proven expertise as investment project lenders provides a comparative advantage to leverage their resources in support of appropriate adjustment policies. These policies have been implemented in much closer coordination with IMF supported policies during the recent debt crisis period. However, to meet the changed circumstances and the needs of individual member countries the MDBs have responded flexibly in encouraging effective policy reforms through structural adjustment lending programs and sector adjustment loans. Such flexible responses by the MDBs in parallel with the efforts undertaken by the Fund represents successful adaptation of these institutions to an unprecedented set of difficult developing country problems. At the April 17-19 meetings of the Interim and Development Committees I stated that more effective use of development resources in support of policy reform is central to the task ahead. I want the MDBs to continue emphasizing their mandated responsibilities for solid investment project lending. I also support retention and prudent expansion of the World Bank's structural adjustment program because it has been a valuable instrument for supporting member countries willing to formulate and implement beneficial programs of structural adjustment. I have also emphasized in my statements MDB efforts to strengthen domestic institutions, rationalizing public sector investment programs (including sound sector pricing) and renewed support to improve the environment for private investment.

Senator Inouye: The global debt crisis has brought with it the proliferation of rescheduling agreements which, seemingly, have but a momentary effect insofar as debt relief is concerned.

In your view of the situation, have you found that there is an increased incidence of rescheduling of previously rescheduled debt?

Does this accelerated use of reschedulings indicate that the international financial system has failed to come to grips with the underlying causes of the debt crisis?

How can we avoid "revolving door" reschedulings? Do you intend to propose alternatives to repeated debt reschedulings as a means of helping countries with serious economic problems?

Secretary Baker: Many countries have faced acute debt servicing difficulty in the past two years. Countries that were already encountering problems in servicing their debt before the onset of the global recession built up debt servicing arrearages, in some cases. However, in all, only six countries (all in Africa) on eight occasions had to have their previously rescheduled debts to official creditors rescheduled again during 1983-84. Five of those countries were involved in at least their third official debt rescheduling. Prior to that time there had been only two exceptions to the principle adhered to by official creditors of not rescheduling previously rescheduled debt.

Rescheduling is undertaken to provide breathing space for the debtor's adjustment policies to begin to work and improve its financial situtation. Increased resort to rescheduling these past few years is a reflection of the severity of the debt problem brought about by the excesses during the previous easy money period. The international financial system is coming to grips with the underlying problems as witnessed by the significant economic adjustment, some of it painful, that has taken place. The process is by no means complete. Some countries, like those in Africa, are faced with quite fundamental and longer-term problems which will require more than financial restructuring through reschedulings and access to rather short-term IMF and other credits.

Some have looked to the debt strategy for a quick-fix or simple solution. I think it useful to view the strategy as a road map. It shows us the unique route to our destination -- sustainable growth and the restoration of creditworthiness in troubled debtor nations. We have already traveled many miles down the road and successfully hurdled some obstacles in our path. Yet some distance remains, and it will take time to arrive at the end of our journey. While the general situation continues to improve, we will be faced with country problems of varying degrees of seriousness from time to time. Unrelenting efforts by developed and developing countries, commercial banks and the international financial institutions to fulfill the responsibility outlined in the debt strategy will, I think, help ensure that we arrive safely at our destination.

ROLE OF THE MULTILATERAL DEVELOPMENT BANKS

Senator Inouye: I was encouraged to read in your prepared remarks that "the Administration firmly supports the multilateral development banks and their vital role in preserving and enlarging the international economy by providing technical and financial assistance to developing countries."

Would you care to expand on this thought? In addition to preserving and enlarging the international economy, do the MDBs directly serve U.S. interests?

Secretary Baker: The operations of the World Bank and the regional development banks were specifically designed to encourage appropriate policies and thereby assist in the economic growth of their developing country members. We continue to value highly the MDBs' proven expertise as investment project lenders, their ability to provide helpful policy guidance and technical assistance, and to act as a catalyst in encouraging private enterprise and investment. Current global economic difficulties and the great need for ongoing economic adjustment underscore the importance of effective MDB efforts in helping to support and encourage developing country efforts.

The Administration's comprehensive assessment of the MDBs conducted in 1982 concluded that the banks were effective in promoting United States' economic (including commercial), humanitarian and strategic objectives. It is our considered judgment that this is still the case. It is also important to note that the MDBs constitute one of the more visible forms of international economic cooperation with our allies.

IDA BORROWERS

Senator Inouye: Former Secretary Regan used to make the observation that seven of the top ten borrowers from the International Development Association were on the periphery of the Indian Ocean.

Is that still the case? How does the list of the top five IDA borrowers compare with the list of the top five recipients of U.S. Security Assistance? There is a close parallel, is there not?

Secretary Baker: The country focus of IDA lending continues to accord well with overall U.S. economic, strategic and humanitarian interests. IDA borrowers are largely concentrated in Africa or on the periphery of the Indian Ocean. In WBFY 1984, the ten largest IDA borrowers were India, China, Bangladesh, Pakistan, Nepal, Ghana, Uganda, Ethiopia, Sudan and Malawi.

Of the 43 countries receiving IDA funds in FY 1984, eleven (Djibouti, Haiti, Kenya, Liberia, Niger, Pakistan, Senegal, Somalia, Sudan, Zaire, and Zambia) also received FY 1984 ESF assistance from the United States. All but five of the 43 IDA recipients (Bhutan, China, St. Vincent, Vanuatu and Yemen PDR) were recipients of U.S. bilateral assistance.

FUTURE BUDGETARY PLANS

Senator Inouye: Mr. Secretary, you appear to share my views on the importance of maintaining U.S. participation in the multilateral development banks. Nonetheless, in the 1988 column of the President's budget, it is made clear that the Administration does not intend to provide funds for future replenishments of these particular institutions.

Can you explain why the Administration is changing its policy towards the multilateral development banks?

Is it the Administration's intention to deliberately understate future budget requirements for foreign aid so that it will artificially appear as if foreign aid requests are shrinking, when you know full well that you will be requesting more funds in the future?

Have previous budgets not shown a requirement for future contributions to the MDBs?

Why have you established the precedent of not showing future requirements?

Secretary Baker: The Administration is not changing its policy toward the MDBs; as I stated in my testimony, our policies toward the Banks continue to be guided by the 1982 assessment of the MDBs -- which concluded that the MDBs help the United States advance its long-term political and strategic interests. We have not made a policy determination that we will not participate, or that we will not participate above a certain level.

Regarding the out-year budget projections for the MDBs, previous budgets have indeed indicated amounts for future replenishments.

One reason for their absence this year is to improve our position for negotiating MDB replenishments. There is no attempt to deliberately understate future foreign aid budget requirements.

It has become apparent to us that the symbolism which gets attached to out-year numbers creates considerable difficulties for us during replenishment negotiations. IDA VII is a prime example of this. Since other major donors do not telegraph any hint of their intentions for replenishing the MDBs, a similar course of action seems appropriate for the United States as well.

I am aware of the desirability that at least nominal out-year numbers be included for budget planning purposes. However, I believe we all need to examine further the inter-linkages between our budgetary and replenishment negotiating procedures in an effort to temper the negative feedback that can result from publicizing out-year numbers for replenishments.

FUTURE ROLE OF THE WORLD BANK

Senator Inouye: What do you know of a World Bank effort to reexamine its role in development lending? Is such a study being conducted now?

What part is the United States playing in the study?

What results do you expect from the study, and when do you think it will be completed?

What are the likely implications of the reexamination for future levels of U.S. contributions to the World Bank?

What are the likely implications for improved World Bank coordination with U.S. bilateral aid programs?

Secretary Baker: The World Bank initiated (on June 8, 1984) a series of studies and discussions with Executive Directors on the Future Role of the Bank. The intent was to develop a plan for the Bank's operations over the next several years. The United States is participating actively in this exercise through our Executive Director at the Bank.

Discussions to date have revealed a consensus among members that the Bank's traditional strengths — in project design, in supervising project implementation and in institution building — should remain the "mainstay" of Bank operation in future years. At the same time, members favor continued selective use of non-traditional lending, e.g., structural adjustment and sector adjustment loans, in support of policy reform. The Bank's "catalytic role" and its role in promoting improved economic performance and adjustment have also been stressed. In addition, there is a consensus on the need for enhanced aid coordination, with the Bank having already moved to expand its aid coordination effort in Sub-Saharan Africa.

The Bank hopes to present to the October Annual Meeting in Seoul a report which provides projections of Bank lending over the next five years, and their implications in terms of resources needed to finance such lending. We will be giving this report very careful study and will consult closely with the Congress regarding possible future funding implications for the United States.

Senator Inouye: What are your views on the subject of IMF stabilization programs? In general, would you say they have been effective in assisting adjustment by countries in economic difficulty? What do you see as the relationship between U.S. assistance and IMF stabilization programs? Should our assistance parallel that of the IMF?

Secretary Baker:

During the past several years the IMF has emerged, with strong U.S. and international support, as the linchpin of cooperative efforts to deal effectively with the severe debt and balance of payments problems of many less developed countries.

Of particular importance has been the IMF's unique ability to encourage the LDCs to pursue economic adjustment policies designed to correct temporary balance of payments problems without recourse to policies destructive of international prosperity and with the minimum possible economic disruption. These adjustment programs, which are developed cooperatively by the IMF and the borrowing country, include measures to address directly the fundamental economic imbalances that contribute to balance of payments problems. Thus, the typical IMF program seeks to reduce fiscal deficits, promote trade liberalization, curb excessive monetary growth, reduce misguided government regulation in favor of a more market-oriented approach, and promote domestic production by improving both international competitiveness and the incentives for greater saving and investment.

IMF programs play another, equally important, role in the adjustment process. By encouraging borrowers to pursue a sound, clearly defined policy approach to basic economic and financial imbalances, IMF programs bolster the confidence of official and private creditors, and act as a catalyst for the debt relief and net new financing often necessary to support the adjustment process.

IMF policy recommendations and financial support have therefore been -- and will continue to be -- integral to resolving the general debt problem and ensuring the continued stability of the international monetary system, as well as addressing the particular problems of individual countries. In my judgement, implementation by the LDCs of effective economic adjustment policies, coupled with the continued close participation of private creditors, offers the best prospects for the restoration of creditworthiness and achievement of both a sustainable balance of payments position and real economic growth.

The IMF's track record in achieving these objectives has been encouraging. Prior to agreement to an IMF program, many LDCs suffer from low or negative real growth, high inflation, large and growing balance of payments deficits, and sharply reduced or suspended access to international capital markets. In these circumstances economic adjustment is inevitable. However, a commitment by these countries to the basic policy realignments implicit in an IMF adjustment program typically triggers both debt restructuring and capital flows, and allows the adjustment process to proceed with higher levels of imports, production and growth than would otherwise have been possible. Further, the adjustment measures are explicitly formulated to lead over the medium-term to the restoration of a sustainable balance of payments position and a return to positive real growth.

Recent experience confirms these points. Growth rates in countries with IMF programs in effect during 1984 were expected to improve noticeably, with most in the range of one to six percent. Of 36 countries with IMF programs in effect last year, 29 projected stronger growth in the program year relative to the previous year; only 3 of the 36 were expected to experience zero or negative growth. Moreover, imports were forecast to expand in 27 of the 36 countries, and in 7 of them imports should rise between 10 and 20 percent. Imports were expected to rise about 12 percent in the nine major LDC debtor countries in 1984, compared to a decline of 9 percent in 1983.

The case of Mexico is a good illustration. In late-1982 the Mexican economy had reached a crisis point: real growth was negative, imports had declined dramatically, and access to foreign capital markets was suspended. However, since implementing a threeyear IMF program, Mexico has made remarkable progress in reducing its severe economic imbalances and restoring its creditworthiness. Because Mexico is one of our largest trading partners, its dramatic turnaround has had important implications for our own economy. U.S. exports to Mexico declined sharply in 1983, falling to just under $5 billion, or about half their 1982 level. However, Mexican imports from the U.S. recovered sharply in 1984 and will likely return to, or even exceed, the 1982 level.

The basic objectives of bilateral U.S. economic assistance are for the most part complementary to the objectives of IMF-supported economic adjustment programs; that is, they both seek to encourage and support policy measures that offer the best prospects for financial solvency and economic improvement. However, despite their basic complementarity, U.S. assistance is not extended in parallel with IMF financing. Individual loans are evaluated in light of the economic situation and prospects in recipient countries and are extended solely on their individual merits.

ADEQUACY OF IDA LENDING

Senator Inouye: In your prepared statement, you say, "the current experience of the MDB soft windows in processing loan commitments indicates that the replenishments the administration negotiated were adequate, including the three-year $750 million per year IDA VII replenishment."

What do you mean by "adequate"? Do you mean adequate to sustain stagnation instead of development?

Is the present economic development of IDA recipient nations keeping pace with the growth in their populations?

So, by "adequate," you mean adequate to finance a continuing decline in the living standards of IDA recipient countries?

Secretary Baker: Economic conditions in most IDA countries continue to be very difficult. In many IDA countries, particularly in Sub-Saharan Africa, for example, economic growth has not kept pace with the rate of population growth. While IDA is important to the poorest developing countries, it is important to recall that there are many other factors (e.g., trade and internal policies) which are the primary determinants of the rate of progress in these countries. The $9 billion IDA VII represents a substantial pool of resources, and should enable IDA to continue to play an effective developmental role if IDA resources are used to encourage sound domestic policies. However, the size of the replenishment does underscore the importance of better concentrating IDA resources on countries (e.g., Sub-Saharan Africa, Bangladesh) which lack access to alternative financing. If IDA resources are focused on these least creditworthy countries, we believe IDA VII resources can contribute significantly in meeting the demand for high quality performance conditioned lending.

PRIVATE CAPITAL FLOWS

Senator Inouye: Has private capital mobilized "adequate" capital to offset diminished IDA resources? How has private capital responded to Third World needs for development finance?

Secretary Baker: Most IDA recipients do not possess sufficient creditworthiness to obtain and/or service significant amounts of private capital. This limited creditworthiness is the primary reason why IDA's credits are extended on highly concessional terms.

If one looks at the aggregate numbers for all non-OPEC developing countries, net private flows (including borrowings from banks and direct investments) are estimated to have continued to decline in 1984 to a level less than one-half that recorded in 1982.

Concerns about recipients' creditworthiness are clearly constraining private flows. However, the more creditworthy "good performers" (e.g., Korea, Thailand) continue to have considerable private market access.

Within the last year, a new five-year program has been designed for the IFC. The United States took an active role in the construction of this plan, and successfully encouraged agreement to allocate a larger share of IFC's resources to Sub-Saharan Africa with an approach that reflects the economic circumstances of the region, i.e., a focus on promotional activities and smaller scale projects. Twenty-four percent of IFC projects in the new program will go to Sub-Saharan Africa. The United States and other member countries support an increased and even accelerated IFC investment program because of the firm belief that a strengthened private sector is a sine qua non to sustained, balanced economic development.

INTER-AMERICAN INVESTMENT CORPORATION

Senator Inouye: Most of your remarks on the Inter-American Investment Corporation are prospective in nature: it will be linked to the Inter-American Development Bank; it will focus on strengthening the capitalization of small- to medium-sized firms in Latin America.

Is the IIC currently functioning? What is the status of the Corporation?

Has it participated in any financing of packages yet?

If it has not made use of funds provided to it, why are you requesting supplemental funding?

Have other countries contributed to the capitalization of the IIC in sufficient amounts to make it a functioning institution? If not, please explain.

Secretary Baker: The IIC is not operational at the present moment. As has been noted, thirty-four countries have reached a final accord on the IIC. Thirteen countries have signed the IIC Charter, and four of these -- Barbados, Guyana, Jamaica, and Peru -- have taken all necessary actions to become members of the IIC. We are anticipating a ceremony in which the U.S. formally joins the IIC sometime this spring. Many of the other countries should be following on our heels.

The Agreement will enter into force only when it has been signed and accepted or ratified by countries whose subscriptions make up not less than two-thirds of the total, including the largest shareholder -- the United States. In order to allow for the various legislative procedures, the deadline for accepting or ratifying the Articles of Agreement has been set at December 31, 1985. However, we are hopeful that the two-thirds point will be met by the fall of 1985.

Under the agreement, we would be expected to put up one-quarter of our subscription when the IIC agreement comes into effect. The same would be the case for the other member countries. In other words, we will have to have the $3.0 million subsciption shortfall appropriated by the time the IIC agreement comes into force.

Other countries are watching our lead. We have a responsibility to be out in the front, demonstrating our leadership for this new institution.

QUESTIONS SUBMITTED BY SENATOR LEAHY

ENVIRONMENTAL ASPECTS OF MDB PROJECTS

Senator Leahy: You have expressed your own concern about the adverse environmental impact of certain MDB projects. Senator Kasten had voiced this Subcommittee's deep concern about MDB projects in Northwestern Brazil.

According to environmental groups, the World Bank has loaned close to half a billion dollars to develop the Amazon. The results have been nothing short of disastrous. An area the size of France has been turned into a wasteland of tree stumps and sunbaked mud. Thousands of Indians have been uprooted.

1. I am encouraged to hear that disbursements for these projects

have been halted. Does the World Bank intend to continue to fund these projects? If so, under what conditions?

Secretary Baker: The Bank is planning to continue to discuss the implementation of projects in the Northwest with the Government of Brazil. The areas that will be covered include:

-- the reorganization and strengthening of present institutional and coordination arrangements and upgrading of staff capabilities in key Brazilian agencies,

-- temporary moratorium on all construction not related to the protection of environmental, forest and Indian reserve land, malaria control activities and measures absolutely essential to the consolidation of previous infrastructure investments,

-- improved funding arrangements to ensure the timely availability of financial resources from governmental budgets,

-- measures to reduce immigration into the Northwest region,

-- forestry and environmental protection, and

-- Indian protection.

If mutually satisfactory arrangements can be reached in these areas, disbursements on the loans can be expected to resume.

Senator Leahy: 2. I understand that the House Banking Subcommittee on International Development Institutions and Finance held hearings on these projects last year. That Subcommittee made 19 recommendations of reforms within the MDBs which would prevent such a debacle from occurring in the future. What measures is your Department taking to implement those reforms?

Secretary Baker: I agree with the thrust of most of the recommendations, although their implementation requires attention to timing and, in some cases, minor adjustment.

The State Department Bureau for Oceans and International Environmental and Scientific Affairs is now participating in the interagency review of environmental aspects of projects, which significantly strengthens the U.S. Government's monitoring of MDB projects.

A permanent position has been established within the Treasury Department which includes among its responsibilities the review of environmental aspects of projects.

The Inter-American Development Bank has been asked to consider the establishment of an environmental coordinator position.

The African Development Bank hired a Swedish environmental expert in December with support from a technical assistance grant from the Swedish International Development Agency.

Various suggestions for strengthening World Bank staffing and organization to manage the environmental aspects of projects have been forwarded to the Bank. The Bank has responded that these remain under consideration. The Treasury Department will continue to report on developments in this area.

The State and Treasury Departments are considering a pilot study to present to the MDBs which will be the basis for urging increased emphasis on environmentally beneficial projects.

The Treasury Department's next steps will be to urge the MDBs:

- -- to consider the appropriate use of non-governmental organizations in project design and implementation,
- -- to include environmental and health ministries in the planning of lending programs,
- -- to ensure the consideration of light capital technology in the design of projects, and
- -- to conform to the World Conservation Strategy and the MDBs' own 1980 Declaration on environmental policies and procedures.

We plan to consult with the World Bank's Economic Development Institute to identify means of strengthening the environmental aspects of its training programs and encouraging participation from developing country environmental and health ministries.

As issues are identified, U.S. Executive Directors at the MDBs will consult with their colleagues. However, we do not favor the establishment of rigid voting criteria for U.S. Executive Directors at this ~~time~~. I believe the Management of the MDBs should be given an opportunity to institute needed improvements before loans are subject to such criteria.

We, of course, would oppose any clearly detrimental loan proposal. For example, the U.S. Executive Director at the Inter-American Development Bank abstained on a loan for a road project in Northwest Brazil in January because the economic consequences of the adverse environmental effects appeared to outweigh substantially any developmental benefit from the project.

While the Treasury Department plans to report regularly on progress in implementing the recommendations to the House Banking Subcommittee, we are less certain of the utility of an annual report. The Treasury Department will cooperate fully with the preparation of an Office of Technology Assessment report on the MDBs.

Senator Leahy: 3. I have also received a report about another World Bank project in Indonesia. This one involves the relocation of millions of Indonesians from the island of Java to outlying islands. Have the environmental implications of this half billion dollar project been adequately considered? What conditions have been attached to these loans to prevent harm to the environment?

Secretary Baker: In 1980, Indonesia had a population of 142 million, of which 92 million resided in the island of Java. The high population density on Java, with 7 percent of the land area of the country, contrasts sharply with the low density on the outer islands, such as Kalimantan and Sumatra. For eighty years, governments of Indonesia have responded to the differential population densities in the archipeligo by attempting to encourage migration from Java to the outer islands.

These "transmigration" efforts in the past have ignored some central facts about the ecology of the island chain. Java, with rich volcanic soils, can support a relatively high population density, although few would argue that the arable land area is adequate to the size of the current population. By contrast, the outer islands have poor, heavily leached soils, which can not support intensive agriculture. This central fact has been the source of repeated disappointments in executing transmigration projects over the last eight decades.

The World Bank has supported transmigration efforts in Indonesia with four loans and is contemplating a fifth in the coming months. The first, $11 million loan, approved in 1976, has been fully disbursed. However, the second project, approved in 1979 for $90 million, has encountered difficulties and as of the end of February 1985, has had only $2.6 million disbursed.

In 1979 and 1980, the Bank undertook a review of transmigration efforts with the Indonesian Government and reached several conclusions:

-- Future projects had to be designed on the basis of ecologically sound regional development.

-- Project effort should concentrate on improving the welfare of those who move in their new location.

-- The diversity of ecological conditions requires a variety of farming systems, including tree crops, adapted to the specific local circumstances.

-- Efforts should be concentrated on developing viable and stable core communities toward which migration would occur spontaneously.

Transmigration projects since this 1981 review have been substantially designed to support these conclusions. The Bank is currently assessing what adjustments may need to be made mid-way through project implementation.

In March 1983, the Bank approved its third loan for transmigration for $101 million to support project activity estimated to cost $185.8 million. As of the end of February 1985, the project is thirty percent disbursed. The major component of the project, allocated about $138 million of the funding, was for site selection and evaluation to lay a sound factual groundwork for future transmigration by identifying areas which are and are not suitable for settlement. A key aspect of this component is to strengthen the capabilities of consultant services in Indonesia in support of future project activity. A second $34 million component was designed to support the settlement of 2000 families on the basis of adequate support services and in a sound ecological setting. Key conditions of the project were the creation of a unit to have responsibility -- and through which funding would be channelled -- for implementation and the establishment of an independent monitoring and evaluation program.

The fourth transmigration loan, also approved in March 1983, was for $63.5 million to support project activity costing an estimated $120 million. Only $2 million had been disbursed as of the end of February 1985. The project was primarily designed to support settlement at two sites in East Kalimantan and featured a commitment to encourage the planting of coconut palms, a crop which can tolerate the acidic soils of the region. Notably, the project appraisal report, anticipating the possibility of organizational problems, required detailed accounting and auditing and specified organization and staffing of the key coordination unit required in the third transmigration project.

The World Bank has been instrumental in identifying the factors that have impeded successful implementation of transmigration in the past. Quite frankly, it remains to be seen whether these lessons are leading to meaningful changes in the way these projects are being carried out. We will be looking carefully at the forthcoming, fifth transmigration project, when it is put forward for approval.

IDB SUBSCRIPTION SHORTFALLS

Senator Leahy: I understand from your prepared statement that Charter provisions of the Inter-American Development Bank fix the U.S. share of the Bank's voting power at 34.5 percent. The Bank can not accept subscriptions from other countries that would push us below that level.

1. Is it correct that each dollar of U.S. arrearages produces a shortfall of approximately $2 in capital contributions from other member countries?

2. To what extent are these combined shortfalls jeopardizing the Bank's lending program?

Secretary Baker: Your figure of $2.00 is essentially correct. For every dollar we fail to contribute, the IDB must refuse approximately $1.90 in capital contributions from other member countries.

Needless to say, these combined shortfalls are severely jeopardizing the Bank's lending program. The growing lag in capital contributions by the United States resulted in a cumulative shortfall (in convertible currencies) of close to $1.2 billion in lending authority by the end of 1984. This shortfall in lending could approach $2 billion by October if the U.S. does not subscribe to its shares. Until such time as compliance with the current payments schedule is brought up to date, the Bank can only enter into new commitments with a conditional provision.

QUESTIONS SUBMITTED BY SENATOR DECONCINI

COMPETITION WITH U.S. INDUSTRY

Senator Deconcini: I was wondering if you could tell me if the American representatives to international banks are instructed to consider factors such as the status of competing American industries before they vote on loans to assist a particular industrial project in another country?

Secretary Baker: Yes, U.S. Directors do take into account the impact of Bank-financed projects on U.S. firms. In addition to our own economic/financial review, the criteria established by the Obey Amendment on surplus commodities are also applied. That criteria, if met, requires U.S. Directors to oppose any proposal producing additional amounts of any commodity for export if it is in surplus, and injures U.S. producers.

Senator Deconcini: I wholeheartedly support our use of the vote in international development banks for the purpose of making a point on human rights. I also support using our vote in these institutions to make a point about violating the free market system to the detriment of U.S. industries, which copper producing nations like Zambia, Zaire, and Chile do. Why don't we use our vote to make that kind of economic point as well?

Secretary Baker: We do. Our votes in the MDBs are made on the basis of a technical, economic and financial review of each proposal. In addition, we also apply the criteria established by the Obey Amendment for projects producing commodities considered in surplus. We are as concerned as you are about the fact that some State-owned mining enterprises are not as responsive to market signals as private producers are and, as a consequence, the burden of adjustment to lower prices falls disproportionately on private firms. In our review of MDB proposals for copper or any other commodity for that matter, we take this element into account. In particular, the concern focuses on determining whether the project is likely to result in significant injury to U.S producers.

With respect to the most recent copper projects, the U.S. opposed the IBRD loan to Zambia for ZCCM and IDB's loan to Chile for CODELCO. The specific reasons for our opposition, however, were not injury to U.S. producers, although an analysis of that was a principal part of the reviews, but the lack of conditionality and the financial arrangements.

Senator Deconcini: How many loans to major copper producing nations, such as Peru, Chile, Zambia, and Zaire, have the various international lending institutions that you oversee made in the last 12 months?

Secretary Baker: None, in the last 12 months. The last loan for copper was approved by the World Bank Board of Executive Directors on March 20, 1984. The $75.0 million loan was made to Zambia and the United States voted "no" on the grounds the project had doubtful financial viability and insufficient conditionality.

HUMAN RIGHTS IN CHILE

Senator Deconcini: Do you foresee any changes in the human rights situation in the near future?

Secretary Baker: I can refer to the 1984 report on Human Rights Practices in Chile. The report notes that under the state of siege which was declared November 6, 1984, 678 persons were sent into internal exile. Of the total, 421 were sent to the Pisagua detention camp under provisions of law which allow for indefinite detention. About half of those persons have now been released.

It is my understanding that another 257 persons were internally exiled under provisions of law providing for 90-day sentences. Most of these persons have also been released.

Most of the restrictions on freedom of the press remain in place; although there has been some easing of press censorship over the past few months.

Senator Deconcini: What other steps can the U.S. take to influence the Chilean Government on the human rights issue?

Secretary Baker: The United States credibility with Chile on the human rights issue is a key factor in our ability to persuade the Government to end human rights abuses. We believe that Chile's human rights performance depends on a range of factors. Chief among these is the perception by the Government that respect for human rights is in Chile's best interest. Through private diplomatic efforts, we have sought to communicate this to the Government and to indicate that such improvements will be reflected in Chile's bilateral relations and in its position in world public opinion.

SUBCOMMITTEE RECESS

Senator KASTEN. I want to say, first of all, thank you for your testimony. Second, we look forward to working with you as we struggle through some of these issues. We do wish you well in your new job.

This completes today's hearing, and it also completes the regular budget hearings for fiscal year 1986.

[Whereupon, at 10:50 a.m., Thursday, April 4, the subcommittee was recessed, to reconvene at the call of the Chair.]

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